DECEMBER 1956

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THE

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What a Country!

BUYERS ATTENDING the Paris fashion showings last summer were astonished to find there, for the first time, representatives of a big U.S. mail-order house. One Frenchman was heard to remark that their presence was probably some kind of American stunt. And quite a stunt it was. It was a compelling illustration of the fact that the vast majority of American consumers are no longer content with minimum standards, but demand the abundance, quality, and style that used to differentiate the good life from ordinary living. They are demanding, because they can afford them, such things as 25-horsepower outboards, cashmere coats, second TV sets, second refrigerators, frozen shrimp Newburg, and high-style dresses.

This pervasive American urge to "spend better," which takes the form of wanting higher-quality goods and services, is the outstanding recent development in the American consumer market.

Estimated consumer spending this year, in 1956 dollars, will come to $242 billion. Total consumer expenditures should come to $272 billion in 1959 and to $282 billion in 1960. Thus real cash income per family, after taxes, which rose from $4,800 in 1950 to $5,000 in 1953, to an estimated $5,400 in 1956, will rise to $6,000 by 1960. By 1959, *20 million families,* or 3,400,000 more than today, will enjoy cash incomes after taxes of $5,000 or more, and these families will account for some two-thirds of all family cash spending.

There are, moreover, portents of an even greater consumer market in the making:

1. Rising productivity may advance in a spurt that will carry real per capita income to a level even higher than can be projected from data now available.

2. The virtual stability of prices over the past three years, even while output and employment were rising, has not only given business the confidence to invest at a record-breaking rate, it has given the consumer new optimism and confidence in the future.

3. In part because real income is rising and people feel optimistic about the future, Americans today are having more babies per family than they were expected to have three years ago, and a projection based on the new trend indicates there will be 179 million Americans by 1960—eleven million more than today—and 220 million by 1975.

4. The sustained migration to suburbia will more than ever set the nation's standards and styles and so influence and change the market. For it is suburbia, teeming with new

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wants and appetites, that has exalted spending better into a way of life.

Never has a whole people spent so much money on so many expensive things, and in such an easy way, as Americans are doing today. They even seem to be laying to rest, at least temporarily, the twin specters of "saturation" and "oversaving." The electric-iron market, for example, has been more than 90 per cent "saturated" for more than 25 years, but Americans go right on buying more electric irons than any frugally calculated replacement table can justify.

"Oversaving" has been one of the gnawing fears of economists. Americans, they say, have so much "discretionary" income to spend that they may someday throw the economy into a tailspin by turning panicky or bored and suddenly ceasing to spend. Nothing of the sort, of course, has happend.

Yet for all his urge to spend better, the American consumer does not illustrate the old merchandising saw that the sure way to sell a man something that isn't moving at $10 is to mark it up to $20. He not only chooses carefully between different brands and models, he also exercises another choice that is strengthening a relatively new force in American business: effective competition between consumer industries. The new Buick competes with that vacation in Florida, the desire to move from a three-bedroom house to a four-bedroom house competes with the urge to buy a bigger power boat next spring, and in countless smaller decisions every day there is competition between better-quality food and better-quality clothes, more high-fi records and the new camera, etc.

American consumers have lavished huge and statistically unpredictable amounts of affection and money on many things. In 1953, Americans laid out $14.5 billion for household goods. Despite—or perhaps because of—lower prices, the household goods industry this year will show a total volume of $18.9 billion (in 1953 dollars), or nearly $2 billion higher than *Fortune* had predicted, three years ago, for 1959. In terms of their apparent prospects in 1953, in other words, household goods have already reached 1960.

Americans will spend close to $17.6 billion running their houses this year, including $3 billion for coal and oil for heating. They are eating considerably better than they ate three years ago, and will spend an estimated $65.8 billion on food, which is a little less than 27 per cent of their cash income. The recreation market, this year, will be an $11.5-billion market, and will probably be a $13.5-billion market by 1959.

American consumers, for all their propensity to spend, do not allocate their spending in fixed proportions, nor very far ahead, nor in a regular cycle. Spending on household operation rises almost inexorably. But other spending becomes increasingly discretionary, subject to change without notice. It is conceivable that Americans may not again buy 7 million cars a year for many years, but may prefer instead to spend more on household goods. Or, again, the high price of houses may drive con-

sumers to spend much, much more on recreation than can now be anticipated. The more various and attractive the market becomes and the more money Americans have to spend, the greater the challenge—and opportunity—to American business.

■ *Gilbert Burck and Sanford Parker.* FORTUNE, *October, 1956, p. 127:10.*

Pay Differentials: A Growing Management Headache

MANY COMPANIES TODAY are finding themselves in a perplexing dilemma. Should they hire top-quality recruits at today's high starting pay—or just accept the lesser talent they can get at their old starting scale? If they decide on the first alternative, the squeezing of pay differentials may make their older hands unhappy. If they chose the second, they may end up with a company staffed with mediocrities.

For the past two years starting salaries have been going up faster than the whole general range of salaries. In many cases, new employees are asking—and getting—salaries which equal or exceed those of employees who have already had experience with the company.

It's not that these newcomers are smarter, better trained, or more experienced than veteran employees. It's just that there are fewer of them—at a time when growth in all fields is forcing an unparalleled demand for new people.

The problem doesn't arise at the production-worker level nor at the top management level. It's in the big middle ground, where jobs are comparable but salaries are flexible, that personnel men are having their worst headaches.

With the dollar difference between levels narrowing rapidly, the problem of adjusting salaries of older employees to compensate for higher starting rates is becoming acute. Almost all companies have the problem to some degree, but there's very little agreement on how to solve it.

The various policies followed—generally expedients seized upon by management when the problem becomes acute—break down into these categories:

1. Hire new employees at whatever you have to pay. If old employees don't like it, let them leave.
2. Set a rigid range for the job—and if the good candidates won't accept that range, hire somebody not so good who will.
3. Give no general increases, but pay "merit" raises to people you particularly want to keep. Distract the rest with more "love and kindness."
4. Tell new employees to keep their higher salaries a secret.

5. Raise everybody's pay to compensate for higher starting rates.

The last method—which most companies agree would be ideal, but impractical—is followed by a bare handful of firms. A very few companies have tried to give a general raise on a proportional basis. If the starting rate goes up 10 per cent, everybody's pay goes up 10 per cent. But one company that follows that system is worried that it's moving supervisors up so fast they're bumping at the rates of their superiors, creating resentment there.

A large number of personnel men feel that employees have no right to resent the narrowing ratios. They say that objections come only from the disgruntled or inefficient employees. "A good man just puts out more to deserve a raise," says a drug company official. "The others are welcome to leave."

Most companies appear to use the "merit increase" expedient when the situation becomes acute. Several companies are switching their entire pay system from one of periodic increases to a pure merit system. "Eliminate the seniority idea in relation to value," says one official, "and you eliminate a lot of today's problems about differentials. No employee is necessarily worth more just because he's been there longer."

Some personnel men argue that this system will just worsen the tensions, since worthwhile employees who won't or can't fight hard for themselves tend to be overlooked. And one personnel consultant adds that merit raises don't solve the basic problem because "they're still applied on the base of the original starting salary. A man who started at $50 five years ago and gets $120 now, sees raw cubs starting today at $90 to $100. He doesn't feel his salary has increased $70; he figures it's gone up only $20 for his five years' work."

Many companies are deliberately hiring "second-best" help. One firm recruits directly from schools at what it concedes are lower-than-average scales. But it feels it would rather fill openings with less-than-qualified people and try to train them directly, than risk a morale problem.

Another company, typical of several interviewed, sets a rigid price for a job and sweats it out till it finds someone who will take that salary, rather than hire a possibly more qualified person who demands a higher price.

Personnel men concede a definite long-term danger in this approach. One says, "We're wondering if we're not risking trouble by saddling ourselves with a lot of mediocrities, while the bright ambitious people go to someone else who'll pay more and risk employee dissatisfaction."

One method coming into wide favor is the establishment of salary ranges for each job. In theory, the newcomer can be brought in anywhere within the range without resentment being aroused. But some that use it find this system as troublesome as either the wide-open or the rigid scales.

In the area of middle management, where the range for a specific job can run between $10,000 and $16,000, judgments become precarious and frictions fierce. Middle man-

agement people are not too mobile. They're at a salary and prestige level inside their own outfit that they can improve only slightly by leaving—and they hate to forfeit benefit rights they've built up. The problem isn't how to avoid losing these people, it's how to keep their morale—and efficiency—high enough so that they don't become liabilities.

■ BUSINESS WEEK, *October 13, 1956, p. 105:7.*

The Rising Bill for Fringe Benefits

A RECENT SURVEY of 1,000 companies by the Chamber of Commerce of the United States shows that fringe benefit costs—payments by employers for pensions, vacations, Social Security, and the like—averaged $819 per employee in 1955, an increase of $99 since 1953.

The survey estimated that the grand total in fringe payments for all employers amounted to $36 billion. This figure compares with an estimate of $1.5 billion paid by American employers for such programs in 1929.

Broken down, the survey showed that the 1955 average of $819 per employee included $254 for agreed-upon programs of pensions and insurance, $254 for vacations and holidays, $145 for legally required programs (Old-Age and Survivors Insurance, unemployment compensation, workmen's compensation, and others), $89 for rest periods, and $77 for miscellaneous.

Ninety-six per cent of the companies surveyed reported payments for employee insurance, with payments averaging 2.1 per cent of payroll. Payments for pensions were reported by 75 per cent of the firms, with payments averaging 5.1 per cent of payroll.

The fringe payments varied widely among the reporting companies, ranging from less than 5 per cent to more than 50 per cent of payroll. The average payment in 1955 was 20.3 per cent of payroll or 39.2 cents per payroll hour.

—*American Business* 10/56

OLDSTERS' SPENDING POWER: By the end of 1956 more than 4.4 million individuals will be covered by one or another type of retirement insurance. Since 1950, the number of persons covered by such plans has grown 51 per cent. Pensions of insured types now in force are sufficient to pay an annual income of close to $2 billion, a sum which supplements the $4 to $5 billion paid to those retired under Social Security. This naturally means a substantial increase in spending power in the hands of oldsters, a fact that must enter into the calculations of all who sell to the public.

—*The Biddle Survey* (Biddle Purchasing Company, New York) 8/14/56

Nine Ways to Measure Your Managers

EXECUTIVE APPRAISAL will be one of the most important business developments of the next few years, say the management experts, because: (1) Bonus plans supply great motivation, and good appraisal is at the heart of a good bonus plan; (2) good executives are expected to get scarcer instead of more plentiful; and (3) the successful companies will be the ones that do the best job of identifying and developing the men with the best executive talents.

Practices vary widely from company to company, but a survey of methods used by leading firms has yielded the following nine rules for good executive appraisal:

1. *Be analytical.* Start off by asking what results you expect from the job. List the critical requirements of the job in order of their importance, and rate your man on each.

Some companies have been experimenting with what might be called "annual work programs," planning both company and individual objectives in fairly specific terms at the beginning of the year. At the end of the year, the effectiveness with which individual executives have accomplished what they set out to do can be reviewed. This programmed approach is particularly helpful where staff jobs are concerned.

2. *Get two or more opinions.* In most companies, this means that the rater's immediate superior also rates the subordinate. A variation of this technique is called group appraisal. This brings together several people who have had opportunity to observe the man being rated. Oral discussion among the raters proves exceedingly valuable in airing all possible angles. In some companies, a review committee checks on the group's appraisal.

3. *Consider long-range contributions.* Some companies use what is sometimes known as the "dossier system." It can be as simple as a file in which the superior keeps notes on the key contributions each subordinate makes in the course of the year. At the end of the year, he assembles the notes in chronological order and, presto, he has a record of performance on which to base a reliable judgment.

4. *Beware of pat formulas.* Collect all the operating data you can as a guide to judgment, but don't try to use any one easy criterion as a measure of achievement. One company formerly used return on investment as a measure of the performance of its different departments. Then they found that some department managers, to improve their performance on paper, reduced their capital investment by buying part of their product, even though manufacturing it was more profitable.

5. *Watch out for booby traps in numerical scoring.* Unfortunately, numerical scoring has a misleading aura of scientific accuracy. Com-

pany executives often tend to forget the wide margin of possible error in their systems and apply them too literally.

6. *Integrate rating results from different divisions on a "bench-mark" basis.* Try to equate the top man in Department A with one of the top men in Department B. It may turn out that the top man in Department A is on a par with the third man in Department B, just as the top team in the National League might rank with the third or fourth in the American. Next step is to do the same with the men at the bottom. Then equate the others in between. This process should be continued throughout the entire company.

7. *Have a clear-cut plan for recognizing accomplishment.* If the company distributes an incentive bonus, and the money available in the bonus kitty is, say, 25 per cent of profits, the first problem is to determine how much bonus the top performers should get. Let's say you decide that the top three should get 50 per cent of their salaries. The next step is to decide how much you're going to give the three men at the bottom—perhaps 10 per cent. Then it's simply a matter of rating the men in between and calculating their bonuses on a proportionate scale.

8. *Discuss the appraisal with the man being rated.* Unless the raters make a practice of discussing with each executive the results of the year's appraisal, they miss a wonderful opportunity to go over with him what he has done, where he has performed in an outstanding way, and what he can do to improve himself.

9. *Don't look for easy answers.* The search for the ideal system is like searching for a pot of gold at the end of a rainbow. Success depends on finding a system that's cut to fit, applying it intelligently, and working hard at making it function.

■ *Philip Gustafson.*
NATION'S BUSINESS,
Vol. 44, No. 7, p. 28:4.

The U. S. Economy: A Look Ahead

How SOUND is the present state of the U.S. economy? There are three principal views being expressed today:

The view that the economy is in the grip of a subtle but dangerous inflation that is bound eventually to produce a crash. The rise of nearly 4 per cent in non-farm wholesale prices and of 2 per cent in consumers' prices during the last year, the new all-time high reached by the consumer price index in September and the recent wage settlements in the steel industry and the coal industry reinforce this fear. It may appropriately be called pessimistic.

The view that our prosperity is on the whole soundly grounded, and that it is a mistake to regard this as an age of inflation. This view is most ably represented by Dr. Arthur

Burns, chief economic adviser to the President. The holders of this second view emphasize the great capacity of the economy, through technological research, to increase its productive capacity and to grow. But they point out that an economy operating at a high level is exposed simultaneously to the dangers of both inflation and deflation, and that the avoidance of these dangers depends upon the skill with which economic controls are exercised. The holders of this view may be called the cautious optimists.

The view that prosperity is soundly grounded, but that a creeping inflation is going on. The slow rise in prices, according to this view, is not laying the foundation for a great collapse. Whereas the cautious optimists stress the increasing capacity of the economy to *produce* goods, the holders of the third view emphasize the growing capacity of the economy to raise the *demand* for goods.

They also believe that the economy is becoming less and less susceptible to business fluctuations. Because they are strongly optimistic about the prospects for growth and the possibility of avoiding severe recessions but question the possibility of preventing a slow rise in prices, they may conveniently be called the "optimistic skeptics."

According to the pessimists, the fundamental reasons for today's almost world-wide inflation are the virtually universal policy of keeping demand strong enough to provide full employment and the insistent demand of people all over the world that they be quickly supplied with all manner of new goods. But history teaches us, say the pessimists, that the end of inflation invariably is collapse.

In contrast, the cautious optimists stress the remarkable stability of the price level—despite recent slight rises—during the last five years as an indication that inflation is not inevitable. Dr. Burns has expressed the belief that the history of the last few years shows that the goals of stable prices and high and rising employment are "broadly compatible."

He bases this belief upon four factors: (1) the quickening pace of research and development, helping to keep labor costs steady in the face of rising wages; (2) the prospect that markets for consumer goods will remain intensely competitive; (3) the likelihood that mechanization will check the rising cost of many services; and (4) the prospect that the elimination of housing shortages will halt the rise in rents.

The optimistic skeptics base their expectation of a slowly rising price level in the long run partly upon the prospective rising costs of some non-replaceable goods, such as metals and oil, and partly upon the belief that the demand for goods will grow rapidly and that this rapid growth will keep the trade unions in a strong bargaining position. Changes in attitudes toward personal indebtedness are raising the demand for goods, because they mean that people's purchases are less and less limited by the growth of personal incomes.

Each of these three views of the state of the economy offers valuable insight into current economic conditions and trends.

The pessimists are right in calling attention to the strong popular demand for inflationary policies throughout most of the free world, including the United States. But when they suggest the possibility of another crash comparable to that of 1929, they overlook the many changes in the economy that strengthen its resistance to contraction—the great increase in the amount of steady Government spending, the large accumulations of reserves for unemployment benefits, and, most important of all, the great improvements in the banking system.

The cautious optimists are correct in emphasizing that the present control by the government over the ups and downs of business, though considerable, is far from complete. Yet, paradoxically, they show great confidence that general price stability can be achieved in the long run.

The view of the optimistic skeptics that a slow rise in prices must be expected is more realistic. Certainly the country is not prepared to accept either of the two known methods of control—sufficient credit restraint to create enough unemployment to halt the rise in labor costs, or drastic direct government controls of wages and prices. We are in fact experiencing a slow, creeping kind of inflation, but it is not the kind that ends in collapse and severe depression. It seems quite safe to conclude, therefore, that the present prosperity of the country is soundly grounded.

■ *Sumner H. Slichter.*
THE NEW YORK TIMES MAGAZINE,
November 4, 1956, p. 15:4.

"You've got some sound thoughts there, young man, and I particularly liked the unhesitating way you echoed them back to me."

—Commerce

Let's Throw the Rule Book Out the Window!

EVERY OFFICE has echoed to the shouts of the nay-sayers. When a problem comes up they are the ones who are always atwitter with concern lest the "rules" be violated.

Habit and decorum are on their side. Frequently, however, success is not.

In your quest for the efficient way to solve a problem you may have to toss the rule book out the window. But more is involved than that airy phrase indicates. You must decide:

1. *When*—under what conditions you should start looking for the unorthodox method.

2. *How*—so as to avoid hitting anybody on the head with the rule book as it falls, and, of course, to keep from getting smacked yourself.

There are two possible occasions when it may pay you to put aside the "tried and true":

When going by the rules gets you nowhere. The executive who talks himself blue in the face to maintain "good relations" with a recalcitrant subordinate, but fails to get the desired response, should realize he may have to create "bad relations" in order to crack the status quo.

When you want outstanding results. In many instances, the "right way" will work out adequately. But you may require something more. For example: A controller who writes his own credit letters knows that by following his normal low-pressure tactics, he'll get a 25 per cent return. But the company needs every cent it can get that month. He sends off individual letters to the checkwriters, whose names he gets from the sales department. He doubles his previous best record for collections.

This isn't to advocate—or condone—the panicky move that an individual tries because all else has failed and he'd rather do something than nothing. What's suggested here is the use of the unorthodox solution as a matter of calm choice.

Some interesting reasons explain why we generally hesitate to leave the straight and narrow:

We assume that there are two different kinds of failure. In one we have followed the "sensible" method with no success; in the other we attempted an unusual course of action and failed. Somehow, we feel the second type of failure is more culpable.

We all have a tendency toward the conventional. That's to be expected. There's strong pressure for conformity in every society.

We tend to think of "rule breaking" as wrong. And we fail to distinguish between "good rules"—those that protect—and "bad rules" that unnecessarily inhibit action that is *not* harmful or undesirable.

For example: The sign that says, "Speed limit 60 miles per hour," is a good rule, because it's for protection of the public. But the "rule" you so often hear expressed as, "We've al-

ways handled it that way," preserves nothing but the mental laziness or unconscious bias of the speaker.

Here is a case that illustrates the virtue of the fresh approach.

A West Coast automobile dealer was suffering from a knock in his organizational motor. Poor relations between the parts and service departments had resulted in unsatisfactory service to customers. The dealer decided to change the organizational set-up by combining the two operations and placing a *committee* of three managers in charge.

Few students of organization would recommend that a three-man committee assume responsibility for two heavy-duty departments such as service and parts. Yet the organizational set-up devised by the car dealer works well. The three-man team operates on a unified budget and bonus system. All parts and service accounting procedures are now integrated. Problems of operating policy are decided by the three men, and projects are tackled cooperatively. Past frictions and delays have been eliminated.

This case points up the fallacy of assuming that an unorthodox approach is necessarily unsound. The new arrangement, reduced to principles, may be as logical as the other.

Occasionally a "wrong" solution will prove a fine temporary expedient, until factors submerged by the change reassert themselves. This doesn't mean that the unorthodox solution is at best only a temporary remedy. But when you apply an off-the-beaten-track method, it may require more careful watch and control than a conventional solution.

Offbeat planning and problem-solving can be approached in a number of ways. Here are six suggestions you may want to consider as an ever-ready arsenal, to be put into action when you're not getting the results you want:

1. *Reverse the field?* Ask yourself, "What would happen if we did just the *opposite* of what we've been doing?"

2. *Apply the brake?* Can you eliminate the situation—entirely or in part?

3. *Intensify the effort?* You've been wrestling with a situation, getting nowhere. Can you increase your commitment—the budget, the people you've put into it?

4. *Expedite the effort?* Where you've gone slow, go all out?

5. *Give time a chance?* Instead of pursuing an energetic course of action, go slow, if time is likely to strengthen your hand?

6. *Consider a gamble?* Where stakes are not overly large, should you take a gamble on the chance of big returns—giving a youngster a king-size assignment, for example, that might pay big dividends?

■ *Auren Uris.*
DUN'S REVIEW AND MODERN INDUSTRY, *November, 1956, p. 43:7.*

QUALITY CONTROL SLOGAN: At Champion Paper and Fibre (Hamilton, O.), employees in the finishing area are reminded: "The next inspector is the customer."

—*Mill & Factory* 9/56

The Middle Manager—Forgotten Man in Growth Companies

MIDDLE MANAGEMENT EXECUTIVES in fast-growing companies are seldom given enough authority, according to a 30-company study made by Dr. James McNulty of the University of California at Los Angeles' Graduate School of Business Administration.

All the companies surveyed have tried to broaden management responsibility by setting up new departments, decentralizing, and opening branch plants. Although they hired new middle-level executives, only 10 out of 29 companies feel that their top management is doing less operating detail now than in 1947. Reason: As a company expands, there's a big lag in taking on more managers and giving them power to make decisions.

In a fast-growing company, the "communications" gap between top management and the lower echelons widens swiftly. Since 1947, many of the companies studied added one or more management levels to their administrative setup. Also, they've increased the use of committees by 72 per cent.

Eight of the thirty companies have a strict policy: Keep the chain of command short. It looks easy on paper, but to make it work is something else again. Only four companies say their top brass makes good use of middle management.

—*The Iron Age* 10/4/56

What's Happening to the Labor Force?

AUTOMATION, as most management men know, requires better workers—men with training and judgment, who know what to do when the machine does not. Thus, we can anticipate not only a labor shortage of men, but a more acute shortage of skilled shop personnel.

Unskilled workers have declined from 36 per cent of the labor force in 1910 to 18.6 per cent last year, and further drops are expected—to 16.8 per cent in 1960 and 15.1 per cent in 1970. The semi-skilled, meanwhile, have increased from 14.7 to 23.2 per cent and are expected to advance fractionally. Skilled labor and foremen, who have gone from 11.7 per cent to 13.7 per cent, will rise above 14 per cent. But clerical workers have nearly doubled, rising from 10.2 to 19.0 per cent, and are expected to go over 21 per cent.

Only about 1 million more people were in manufacturing last year than in 1910, but in service industries the figure had gone from 14 million to almost 30 million. There are now more people in service industries than there are in manufacturing!

—*American Machinist* 9/10/56

Organizing for Tomorrow's Marketing Job

WHILE MOST top sales executives know the targets, in terms of total sales volume, that their companies are aiming for in 196—, it is a rare marketing executive whose five- to ten-year sales goals have been clearly spelled out for him in terms of specific products, markets, prices, manpower, requirements, and organizational plans.

For every chief sales executive who looks ahead with confidence to the next five or ten years, there are another 10 who are wondering where and how this additional volume is to be obtained. Handicapped by limited staffs, they are bogged down in efforts to get their sales planning done in the time available. The chief sales executive in this difficult situation thinks of the many factors that will affect his responsibility in achieving the company's over-all volume objectives.

High priority will be given to the problem of the product line. The marketing department must be given responsibilty for spearheading innovation in product design or improvement. Top management can no longer say, "You sell what we want to make." That is the pathway to a dried-up market.

Cost reduction through automation today is often thought of as entirely a production engineering responsibility. Actually, it's the sales department's job to spark the development of products that are salable in profitable volume and at the same time can be produced by automatic production techniques. This requires the coordination of the marketing function with the company research function.

The job of organizing for the market of today and tomorrow calls for a more intensive application of the product-manager principle if volume goals are to be achieved most successfully and at the lowest cost. Tomorrow's product manager must participate in every aspect of operations affecting the product or group of products assigned to him, from its original design through to its packaging and sale. He will play an increasingly vital role as the channel of communication between the sales department, the research and development department and the manufacturing department.

In many cases in both large and small companies, the sales organization structure must be realigned to provide for more marketing research in broader scope and greater depth. The marketing research department of today may well become the "engineering" function of the sales department, employing new and better and more precise scientific techniques that merit this "engineering" label.

Marketing engineering and the product manager will team up on such problems as developing the right kind of sales appeal to go with the product. Marketing engineering will deal with pricing and price lining, consumer motivation, and other moti-

vation problems with dealers, distributors and your own salesmen. To get the most value from the marketing expense dollar, marketing engineering will conduct a continuous research project directed at the economics of marketing.

Another major problem which will influence organization structure in marketing is whether a company should have fewer salesmen of higher caliber and better training or a larger number of the same kind of "average" personnel as in the past. You can find intelligent arguments on both sides of this problem.

Of one thing we can be sure: The supply of prospective "hot-shot" salesmen in the next few years isn't going to be big enough to go around for all the seekers after more and better men. This points to the need to organize your recruitment, selection and development programs for a more difficult job ahead.

A bigger sales organization creates problems of supervision. There just aren't enough competent supervisors to go around, unless you started five to ten years ago to prepare yourself. Even under the pressure of necessity, the wise sales manager will say, "Don't ruin a good salesman by making him a poor supervisor."

The leadership responsibility of the sales department extends to the generation and the maintenance of a high order of sales-mindedness in all departments of the business. The most successful businesses are those whose sales departments keep everyone aware of the needs of the market, what is being done to meet these needs and cope with competition, and what other departments can do to help the company market more of its products.

■ *From an address by Eugene B. Mapel before the National Sales Executives' 21st Annual International Distribution Congress.*

Marketing: Key to Industrial Expansion

TODAY WE ARE ENJOYING an era of unprecedented prosperity, with the highest living standards in history, record-breaking employment, and vast industrial and business development. If there is any barrier to further economic growth for this nation it is marketing. Industrial expansion is dependent to a large extent on the ability of our distribution system to dispose profitably of the increasing quantity of goods which industrial efficiency and advanced technological skill can produce. If we are to accomplish this task we must come up with new concepts of merchandising far beyond those which characterize our economy today. Let us review some of these and see what courses of action are open to us.

One of the major needs of marketing is the accumulation of more adequate scientific knowledge. Comparatively speaking, we have been studying marketing for only a few years. Responsible marketing execu-

tives should do what they can to encourage the schools to expand their courses in marketing subjects by working closely with the educational institutions in their areas.

Another major need is the development of more comprehensive training programs within our own organizations which will give our salesmen and marketing executives a more thorough knowledge of their jobs. In too many cases sales training is still a once-over-lightly proposition. Too many men are simply hired, given a few days to scan catalogue pages and examine products, sent into the field with an experienced salesman to observe his methods, and then considered ready to be sent out into the world to succeed or fail among a vast swarm of hardened prospects.

Basic marketing research is another pressing need. Although we are making good progress in this direction, we still have a long way to go. It has been estimated by the National Industrial Conference Board that the total sum spent on marketing research is less than 10 per cent of that spent for industrial research—and this in spite of the fact that more consumers' dollars go for distribution costs than for production expenses.

To secure the necessary information on which to base our marketing plans, all types of distribution research must be conducted. We must study the work of research people outside the marketing field whose techniques show promise of worthwhile results. For example, consider the time-study concepts and techniques that have been perfected by industrial engineers. We can apply these principles to salesmen to a greater extent than we have. In the drug industry, we learned that our salesmen averaged only about 10 minutes per call in actual selling effort. We found that sales resulted in 54 per cent of the instances when certain arguments were used, whereas sales were made in only 13 per cent of the cases when certain other (and more popular) selling points were stressed. More research of this type cannot fail to increase our marketing efficiency.

Another promising field comes under the heading of automation, a word common to the production engineer but likely to be only a hazy concept to the distribution executive. So far we have been unable to apply mechanization principles to marketing processes as extensively as they have been applied to manufacturing processes, although we have done a fair job in certain physical phases of distribution, such as transportation, storage and record keeping, Also, vending machines are already being utilized successfully for the sale of an increasing variety of products.

The relatively high cost of distribution—generally stated to be about 60 cents of the consumer's dollar—is another problem which we must face. Why are these costs disproportionate to those in the production field? One reason may be found in the increasing demand for more extensive and expensive services. Is it possible that we are over-servicing our customers? Many types of special services must be studied in relation to their sales-producing possibilities.

What the self-service supermarket is doing to the neighborhood grocery store is indicative of what can happen when consumers begin to weigh the value of special services against the costs involved.

A final problem facing our marketing experts has been an inability to increase sales productivity as rapidly as we have industrial productivity. Producers in the United States, both industrial and agricultural, have been increasing their output per man-hour much more rapidly than have those engaged in distribution. *Fortune* magazine recently reported that the output per man-hour in industry and agriculture had more than doubled since 1929, while distribution productivity had increased only 49 per cent. We shall face increasingly difficult problems if this trend is not corrected and brought into better balance.

We are entering the golden age of marketing. Our future business progress will depend on the ability of the marketing function to make the same kind of technological progress that has been characteristic of industry as a whole during the past few generations.

■ *From an address by Herman C. Nolen (President, McKesson & Robbins, Inc.) before the National Industrial Conference Board.*

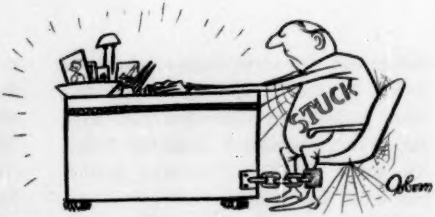
Salesmen Want Security, Too

EXECUTIVES WHO INTERVIEW CANDIDATES for selling jobs are today hearing questions that once were asked only by applicants for inside office positions. Prospective salesmen are showing interest these days in retirement plans, vacations with pay, group life and health insurance, and sick leaves. In choosing a job, the applicant often gives a good deal of weight to these fringe benefits.

Because this interest in security is a relatively new trend in the selling field, it is deplored by some sales executives trained in the school of hard knocks and rugged individualism. Most firms still do not include salesmen in their employee welfare programs, or do not include them fully. As commission employees, some companies say, salesmen can afford to buy their own retirement and health protection programs.

But today's young men do not see it that way, and neither do their wives. And, because selling has not kept pace with other occupations in the economic security offered the beginner, there is a serious scarcity of young sales talent. To make selling careers attractive, more and more companies are granting salesmen the same fringe benefits that are given to regular employees. There are several advantages to this policy: (1) It makes recruiting of sales candidates easier; (2) it helps to hold salesmen already on the staff; (3) it contributes to morale; (4) it improves the job climate; and (5) it helps a salesman's wife and family to appreciate his occupation.

—William Hardy in *Sales Management* 10/19/56



Why You Have So Little Time to Think

AT ONE PARTICULAR dynamic company, where the factory is run with admirable smoothness and efficiency, the private office of the vice president in charge of sales is almost an obstacle course. He is a slave not only to the appurtenances of his office, but to a daily hodge-podge of time- and effort-killing activities that leave him little time to think, plan, and grow.

Sound familiar? Of course it does. Almost every executive would like to cut out some of the endless, wasteful things that steal his time and effort. But how?

If you want to gain an extra hour or more every day you've got to figure out ways to handle many of your little tasks easier and faster. Here are some of the worst time-stealers, along with some suggestions for dealing with them:

Time-stealer No. 1: Your desk. Most executives regard their desks as vital in their jobs. But a desk can be a two-way trap. Because they feel at home behind it, many executives don't spend enough time away from the desk on personnel relations, traveling, seeking customers and making sales. And a big desk increases your preoccupation with paperwork.

Louis Hausman, vice president of CBS, has a no-desk setup, and he finds that the informality of his office encourages easier conversations, faster-moving conferences. The few papers he really requires are kept on a low coffee table.

Time-stealer No. 2: The telephone. The telephone can be one of our greatest time-savers—and it's also one of our greatest time-wasters. For one thing, there's the temptation to make and receive unnecessary calls. Try grouping your incoming and outgoing calls to give you free time to concentrate.

Time-stealer No. 3: Lengthy meetings. Many businesses are dependent on committee action or group decisions. But the conferences often drag on interminably. Alfred E. Lyon, board chairman of Philip Morris, speeds up committee decisions by scheduling all his important huddles late in the day. Most people are anxious to get home, so talk for talk's sake is held to a minimum.

Time-stealer No. 4: Those long business lunches. In many firms there seems to be an unwritten rule that you just can't talk business until after dessert. But investment broker Arthur Wiesenberger finds that by settling the matters before lunch rather than after, little time is wasted on polite, meaningless trivialities.

Time-stealer No. 5: Inability to get uninterrupted time. Most execu-

tives actually don't have 20 minutes of uninterrupted time during the day for even the most important decisions. Defense Secretary and former General Motors chief Charles E. Wilson makes it a practice to lock his office doors and cut off incoming calls for regular periods each day. Some executives go to a secret office outside their own buildings or to unoccupied offices in their own headquarters to gain uninterrupted time when needed.

Time-stealer No. 6: Using your best hours for your least important work. Concentrate on your most important jobs during hours when you're at peak efficiency—which for most executives is in the morning. This can cut down on the time required to complete many assignments.

Time-stealer No. 7: Schedules that don't work. There's hardly any executive who doesn't have some kind of operating schedule. Many have elaborate charts—so elaborate, sometimes, that they don't work. What makes an effective schedule is the ability to separate the fundamentals from details. And bear in mind that the most recent thing that comes up in your activities isn't always the most important. If you form the habit of considering new developments in terms of how they fit the over-all, you'll save lots of time.

Time-stealer No. 8: Inability to delegate authority. Some executives spend too much time explaining to their assistants exactly what they want them to do. C. R. Smith, president of American Airlines, Inc., had this problem when he began his executive career. "So I concentrated on getting and training aides to help do a job," he says. "I looked for people who were both industrious and confident, even if they didn't operate exactly as I might have. Each man I trained helped give me more time for self-development."

■ *Ray Josephs.*
SALES MANAGEMENT,
October 19, 1956,
p. 110:7.

Higher Education for the Lower Ranks

COLLEGE TRAINING for top executives is hardly anything new. But, surprisingly enough, the idea has been extended by some concerns to include lower-ranking employees, reports the *Wall Street Journal.*

Companies suffering because of poorly trained personnel are starting to send plant supervisors, foremen, and lower-ranking workers who hold key jobs, to special college courses—usually to learn specific skills. This fall, for example, salesmen from scores of paper box companies entered classes in six leading colleges to study the subject of packaging consumer products. The Folding Paper Box Association sponsored the courses.

A U.S. Chamber of Commerce survey shows that 248 American trade associations were active in 1955 in some sort of college training program —with the trend toward higher education for lower-level personnel.

Negotiating Your Labor Contract Successfully

HOW WELL PREPARED is the average employer when the time for labor contract negotiations comes around?

According to Cyrus Ching, former director of the U.S. Mediation and Conciliation Service, "At least half of the collective bargaining deadlocks that occur could be avoided if management selected its negotiators more wisely, and if it better equipped them for the job to be done."

If 50 per cent of employers are inadequately prepared for negotiations, where does the fault lie? One frequent shortcoming of management is failure properly to inform and support the negotiator. Frequently, too, the negotiator may fail to prepare himself conscientiously enough, well ahead of negotiations, with all the necessary facts. He will need statistics to answer the statistics which the union is certainly going to produce. He must have a thorough grasp of the union constitution and by-laws, especially the clauses put in for the protection of the employer. He should read the union publications to keep abreast of the union's policy on points that he may have to negotiate. He should meet the union officials occasionally during the course of the contract to talk over the various problems that are likely to arise.

Some employers who have caught union negotiators in acts of bad faith are angered to the point of condemning all unions. That's a bad mistake, too. Even if some negotiators have been known to deal from the bottom of the deck, most unions have good intentions.

Many an employer has had proof of this. It happens frequently that an experienced management negotiator will, upon finding a problem he cannot settle with the union at the local level, get in direct touch with union headquarters and have it settled there.

Such a step is, of course, only to be taken as a last resort, when there is a flagrant case of bad faith or stubbornness on the part of the local union officers. Similarly the union may go over the head of the employers' representative to some high ranking officer, preferably the company president. Unions have gained concessions this way which were not necessarily good for the company. Management should be very wary of such an approach, since bypassing the company negotiator weakens his authority.

Among common mistakes made by negotiators, one stands out beyond all others. When the negotiator gets the employer's green light he is altogether wrong if he refuses to negotiate with the union within the legal time limits. Settlements with the union are usually retroactive, so any delay in negotiations by the employer can only result in slowed-down production and an uneasy work force. Another serious mistake which negotiators are apt to make is wasting a lot of time on fruitless technicalities.

A contract between employer and union should be looked upon as a genuine agreement, not a hard bargain. Its content should be clear for all to understand, without any so-called "clever clauses."

To deal successfully with any union, it is important for an employer to have a knowledge of union philosophy. Unions, like employers, operate according to principles. The employer who thinks he can get on the right side of the union by granting big wage increases, while refusing to recognize the union's General Laws, is inviting serious trouble—including, most likely, a strike. Employers would find it informative to attend union conventions, which usually hold open sessions.

Union strength often arises from management weakness. Almost always, in labor relations, the employer leaves the initiative to the union in such matters as denunciation of contracts, new demands, and so on. There is danger in this strictly defensive attitude. It is up to the employer actively to safeguard his rights.

This does not mean an anti-union policy, but a policy of firmness which will command respect without losing the employee's friendly understanding.

During contract discussions, the negotiator, with his specialized experience, will usually be more realistic than his company's top management. Often, when bargaining is about to begin, the negotiator will tell the employer: "Right now we could settle on such-and-such terms." Unfortunately the employer, failing to see the realities of the situation, will disagree with his negotiator at this stage. And six months later, when the contract comes up for signature, the employer finds he has had to give away a lot more than his negotiator could have settled for months before.

It is entirely possible to deal with a union in a spirit of justice, a spirit which recognizes the legitimate interests of both parties while standing firm on questions of principle and interference with the rights of management. It is likewise possible, by constant effort, to develop among employees a sense of responsibility and cooperation with management.

Even the best contract is only a code whereby two parties have agreed to work together. The nature of the employer's relationships with his employees is determined by his day-to-day contacts, and these contacts are themselves one of the important aspects of collective negotiations from the practical viewpoint.

■ *From an address by Georges Laverdure before the Canadian Graphic Arts Association Convention, Niagara Falls, Ontario.*

WATCH YOUR CALORIES. Subordinates' "yeses" are the carbohydrates of an executive's mental diet. Toothsome, gratifying, and—up to a point—necessary for strength. But if you eat nothing else, you can put on fat where it is most dangerous of all: in the head.

—*Management Briefs* (Rogers, Slade & Hill, New York) No. 70

Should Business Gifts Be Discouraged?

THE PRACTICE of giving Christmas gifts to customers is well established in American business life, and there are no signs that it is dying out. Nevertheless, a recent nationwide survey conducted by *Purchasing* magazine among purchasing agents, who play an important role in the distribution of business and are naturally the target for much Christmas giving, indicates that half of them consider the practice a nuisance—and 12 per cent feel that it poses a serious ethical problem.

Most purchasing agents, the survey shows, are members of the "little-gifts-are-OK" school, feeling that a strict "no-gifts" policy would cause ill feeling and destroy the harmonious relationships they are trying to build up. But 83 per cent are opposed to the idea of giving gifts of nominal value in return, many pointing out that such a practice would encourage vendors to give more—and more expensive—gifts.

The survey indicates a general feeling among purchasing agents that top management isn't very much concerned with the problem; 71 per cent report that no action has been taken to discourage gift-giving by suppliers, and half of them say that the sales departments of their own companies regularly distribute gifts.

"Sure, I'll tell you how I got my raise—but I don't think it'll help you much."

—Reprinted by special permission of *The Saturday Evening Post*. Copyright 1956 by the Curtis Publishing Company.

How to Be Healthy Though Successful

ONCE, as a well-to-do business man was being laid to rest, one of the mourners remarked to another how sad it was that good old George had to go to such an early grave. "Yes, it is too bad," said the other, "but how many of us can be as successful as George was?"

Obviously, the price of success needn't be so high. Yet three out of every four business men today are living 25 to 50 per cent below their maximum efficiency.

Here are a few pointers on how to be healthy though successful:

1. *Enjoy your work.* The bigger percentage of your life is devoted to business—40 years for the average man—so why not enjoy your work and the people with whom you work? Your attitude toward each sets the atmosphere for your subordinates and affects your boss's opinion of your own potential. Don't get caught in a down-draft of worry, fear, and tensions.

2. *Analyze your job.* Look at yourself objectively. Is your present pace too fast or your work load too heavy? Are work tensions making you nervous, irritable, and quick to blow your top? Start now to slow down. Budget your time as you do your finances. Are you using modern devices and techniques to the greatest advantage in your work? There are many time-savers.

3. *Avoid "office politics!"* Office politics are an insidious cause of emotional upset among management personnel, and they are often made the scapegoat for a manager's own personal failings. Involvement is bad from every point of view.

4. *Keep your home problems and office problems separate,* for others' sake as well as your own. Home problems have little place at work. Your associates have their troubles, too, and shouldn't be burdened, even indirectly, with yours.

5. *Look on the positive side.* Like the medical student who "suffers" the diseases he studies, you may be prone to anticipate everything that can possibly can go wrong in your business. Stop fretting over minor crises. Learn to accept the things you can't change; do something about the things you can change; and learn the difference between the two.

6. *Stop worrying about your health—do something about it.*

Upon examination, 75 per cent of executives usually have some symptoms or ailment about which they are concerned. After examination, only one-third of this group (25 per cent of the total) are found to have any significant trouble. Yet it is important to note that the concern which 50 per cent of these executives expressed affected their productivity as much as though they had actually been sick.

7. *Live intelligently.* It is difficult to maintain a healthy mental attitude toward your job, your subordinates,

and your superiors if your physical machinery is not in good operating condition. Intelligent living habits do much to assure the smooth functioning of your system.

Food, rest, and exercise must be regulated and balanced for vigorous health.

8. *Watch your weight.* Overnutrition in this country is a far more menacing problem today than malnutrition. You needn't entirely forego the joys of eating. All you must do is control the quantity—and, if you are overweight, change your eating habits for good.

9. *Get more rest.* Everything mechanical requires rest to extend its productive life, and your body is no exception: It requires adequate sleep for real rest and relaxation. Learn to relax for at least an hour before bedtime. Put aside your worries and let your body unwind. Don't underestimate the value of your annual vacation, either. You're fooling yourself if you imagine you can keep up the pace day in and day out without a break.

10. Get more exercise. If you are an average executive, you undoubtedly are not getting nearly enough exercise. Try to take a 15-minute walk three times a day. Walking around the office doesn't count; even though your muscles are getting a workout, your mind is intent on the business at hand.

■ *Harry J. Johnson, M.D.*
THE IRON AGE, *November 8, 1956, p. 55:3.*

Using Productivity Increases: A Management View

WE IN THE UNITED STATES are now in a position to achieve, and doubtless will achieve within the next few years, a breakthrough in productivity. This is because control equipment can now be built which can eliminate a high proportion of the unskilled work in industry, not only in warehousing and order picking, which are manually performed today, but also in the movement and holding of goods during production. Clearly, the economic incentives for increased productivity are very great. But how should such increases in productivity be used?

It is a fair assumption that future increases in productivity, just as past increases, will reflect themselves in a higher standard of living. On the basis of studies made by his company, Ralph Cordiner, president of General Electric, recently predicted that the U.S. will produce approximately 40 per cent more goods in 1966 than it is producing today. He then pointed out that the population forecast, and this is the government forecast, indicates that we can expect to have only 14 per cent more workers than we have today. But the opportunity to upgrade the market

is so great that there is no practical limit to America's capacity to consume. With peace, we can produce a higher proportion of consumer goods and obtain markets in the under-developed countries of the world far beyond anything we have dreamed.

In order to speculate on the effects of automation, one must have some idea of the speed with which automatic procedures will be adopted and the number of persons who might be displaced from their accustomed occupations. From studies which our company has made, we are under the impression that in those companies of sufficient size to take advantage of fully automatic procedures and in those areas of work which are most susceptible to automation, there is a theoretical possibility that 4½ million persons could be displaced in the next 10 years.

Even this, however, is not fast enough to supply the manpower that will be required by the increases in the size of the economy itself. Additional savings, therefore, will have to be found in other areas of production and distribution. It is generally said that productivity has increased historically at a rate of approximately 3 per cent per year; 450,000 workers per year is only ⅔ of 1 per cent of this saving, leaving the other 2⅓ per cent to be obtained by conventional methods. If we continue at the same rate, as many believe we will be hard put to do, then the effect of automation on the economy as a whole is an academic question. This is not to deny that the cumulative effects of more automatic methods will have profound effects on our working methods, our educational and training practices, and our lives as a whole.

Automation will tend to eliminate the least skilled and least productive workers, those who do the heavy lugging, the repetitive, back-breaking work to which we attribute no special worth or dignity.

It will change the patterns of work assignments in industry, a process that is already going on to a marked degree without automation. Thus, we will need fewer all-around men and we will have more specialists. One of the effects of automation is to create centers where all work of a given kind and all supervision of a given kind takes place in one place. The cost of job manufacturing, on the other hand, which will require all-around mechanics or machinists, for example, will go up to a very high level.

Many opportunities will be opened for white-collar workers, technicians, and engineers. But, even more important, higher wages will tend to wipe out social distinctions. We have already seen a very remarkable thing in the U.S.: our working class has to a large extent become a middle class. Automation promises to accelerate this movement.

What will happen to wages and hours? Real wages will probably continue to grow at least at the rate of the increase in the value of the gross national product over the rate of increase in the working force, assuming no further increases in defense expenditures. This suggests that we can anticipate an increase of

at least 2½ per cent per year in real wages, or 25 per cent higher purchasing power for each worker in 1966.

Shorter hours do not, it seems, derive from extra production as a means of spreading work. They have almost always come at a time when a shortage of labor gave the unions higher bargaining strength. We can expect that hours of work will continue to get shorter. The nine-hour day, six-day week, was common in American industry until World War I. The eight-hour day got started in the early 1900's but was by no means universal until the 1920's. We may be absolutely certain that just as the 54 hour week was replaced by the 48 hour week, and the 44 hour week by the 40 hour week, the 35 hour week will, within a few years, become universal, followed by a further reduction within a generation. The three-day weekend may well be universal by 1975.

Management's general viewpoint on how we shall use future increases in productivity is really no different from that of any other group of Americans. Management wants to produce more and better products, many never produced before. There is nothing management wants more than to see the American standard of living continue to increase. It is only with such increases that business can continue to grow.

■ *From an address by I. D. Robbins before the Eighth Annual Labor-Management Conference, New Brunswick, New Jersey.*

Consumers: Better Off or Not?

BY PRODDING at the U.S. consumer's pocketbook nerve—and eliciting three and one-half times more squeals of pleasure than yips of pain—the University of Michigan's Survey Research Center concluded recently that Americans remain convinced of the soundness of the economy and their own financial situation.

The interviewers went to a nationwide sampling of 1,350 families, asking, among other things: "Would you say that you are better off or worse off financially than you were a year ago?" Result: 77 per cent, better off or no change; 21 per cent, worse off; 2 per cent, uncertain.

Not that there wasn't some ground for pessimism in price expectations (45 per cent foresee price rises) and buying intentions (would-be buyers of houses and major household goods are scarcer). But those who intend to buy automobiles are just as numerous as they were a year ago.

—*Newsweek* 10/22/56

BUSINESS CONCERNS operating at the end of 1955 numbered a record 4,252,000, according to the Department of Commerce. This figure was 63,000 larger than on December 31, 1954.

—*The Controller* 8/56

Pension Plans Reach New Levels

ABOUT 40 PER CENT of the employees in civilian, non-agricultural establishments throughout the United States are now covered by some form of pension plan, in addition to whatever coverage they have under the Social Security Act, the Institute of Life Insurance reports.

It is estimated that, at the start of this year, nearly 25 million persons were covered by old-age pension plans, including both private and government plans and including nearly two million annuitants already on the receiving end of pension payments. These figures include the armed forces. Excluding them, the total covered at the start of this year was 21.5 million, including 1.8 million actual annuitants.

Again excluding the members of the armed forces, the number of active employees enrolled in pension plans was just under 20 million.

About 67 per cent of the employees under civilian pension plans today are in private pension plans, compared with 42 per cent 10 years ago. At the start of this year, 13.3 million were enrolled in private pension plans; in addition, 920,000 were already annuitants under these plans. Those actively enrolled in the private pension plans 10 years ago numbered 5.6 million, and in 1935 they numbered 2.6 million.

—*Commerce* 11/56

What Price Corporate Directors?

HOW MUCH is a company director worth? If it's money you're talking about, the answer is about $100 a meeting. The National Industrial Conference Board checked 333 corporations, and found that almost half of them pay $100 per meeting, with about 16 per cent holding it down to $50. Maximum range of fees was from $20 to $500. Since most boards meet once a month, the average works out to $1,200 a year.

Two-thirds of the companies said that they pay expenses of directors who are not also officers; only one third pay anything extra to officer-directors.

The survey also revealed some new trends in the directorship business:

Payment by annual salary, instead of per-meeting basis. Of the participating companies, 92 have adopted this method.

Enforced retirement at age 70. Thus far only 10 of the companies surveyed have embarked on this course, but many others say they are considering it.

Honorary directorships, with retired directors invited to participate in meetings, though they cannot vote and usually receive no fee.

—*Business Week* 8/4/56

THE MINUTE you get satisfied with what you've got, the concrete has begun to set in your head.

—*Charles F. Kettering*

How Sound Is Your Records Management Program?

THE AVERAGE COMPANY maintains at least 2,000 pieces of paper for every person on its payroll. Processing these records at a conservative 20 cents apiece creates an overhead cost (equipment, supplies, personnel, etc.) of $400 per year for paperwork alone for every man on the payroll. In a government agency or in a public utility (surprisingly enough, the data are comparable), multiply the volume and costs by five—raising the ante to at least 10,000 pieces of paper and $2,000 for every person on the payroll. These are substantial amounts actually eating away at net profits in companies of every size. And 65 cents out of every dollar spent for paperwork is wasted in the average company. This holds just as true for creating and processing records and paperwork systems as for the more familiar scapegoat, record-keeping.

Records management research indicates that the average manufacturing concern with 100 employees should: (1) have no more than the equivalent of 62 file drawers of records in the office and storage; (2) retain only 29 of these in the office; (3) store the less active records at a total cost of $27.20 a year; (4) utilize 33 square feet of space in the office and 6 to 7 square feet of space in storage; (5) limit the vital company records to less than one file drawer; and (6) protect them by new techniques at a cost of one-half cent per document.

In actual practice, however, the average business with 100 employees (1) has over 103 file drawers in office and storage—a surplus of 40 per cent that highlights creating filing and maintaining 131,000 pieces of paper unnecessarily; (2) retains over 70 of these file drawers in the office—more than double the standard; (3) stores the less active records at a total cost five times the standard; (4) utilizes twice as much square footage as the office standard and five times the standard space for records storage; and (5) either has no vital records protection at all or has gone overboard on moving them out of town or filming them, so that the document protection cost rises to three times the standard, up to 1.5 cents per document.

Paperwork is the largest single maintenance overhead cost in any size company. Yet the cost and potential controls go by default. We would not dream of letting a $5,000 factory worker decide how to manufacture the product, but we let the $4,000 office worker create his (or her) own files, procedures and paperwork operations. Yet the cost of one new file cabinet (five-drawer letter size) eats up the profit on $1,166 worth of business. The cost of creating one letter can eat up the profit of $18 worth of business. The

cost of maintaining one office file drawer for a year eats up the profit on $727 worth of business. Maintaining four cabinets or more eliminates the profit on $4,200 worth of business.

In dealing with their paperwork problems, the great majority of companies have been treating effects rather than causes. For example, we are just beginning to do something about salvaging important executive papers buried in a mass of trivia. In companies where factory production costs are computed down to each nut and bolt, there often are not even summary figures on what the total paperwork costs are—let alone what it costs to produce an invoice, a voucher or a purchase order. In a nation where quality standards are scientifically computed to establish a breakeven point between the cost of an error and the cost of preventing an error, offices operate on an unrealistic standard of 100 per cent accuracy for any and all records both inside and outside the organization.

If we lack information about the actual volume of paperwork, let alone its cost and quality, we can hardly hope to correct the situation. We cannot eliminate the sources of trouble when we cannot even identify the sources.

For every complaint about the low level of clerical efficiency, there is another instance where paperwork itself is held in disrepute, and there is the mistaken notion that "common sense" and low-paid help provide the key to "cleaning up the mess." Records management is a complicated and expanding program. It cannot be handled by low-grade personnel or systems staff who can only devote part time to this activity. Finally, in too many companies, improvement is a makeshift temporary target. Companies boast of lower costs without knowing how much fat remains to be trimmed. They count the paper destroyed or the forms consolidated—but in most cases neither management nor the operator knows for sure what remains to be done or the priorities (profits or services) for such improvement. Yet the fact is that scientific records management now provides a growing number of guides to appraise current paperwork, get at basic causes of inefficiency, and provide management with the data necessary for objective decisions. It only remains for management to realize the urgency of its paperwork problem. The remedy is within reach.

■ *Arthur Barcan.*
THE JOURNAL OF ACCOUNTANCY,
November, 1956, p. 50:5.

WORKERS ON LAYOFF, anxious to know when they will be recalled, often return to the employment office for assurances that they will not be forgotten. Scovill Mfg. Co. (Waterbury, Conn.) keeps employment interviewers up-to-date on business conditions and maintains a seniority list in the emplovment office so laid-off employees can be given exact data on their status.

—*Mill & Factory* 7/56

The Personnel Job in Perspective

WHAT IS THE PROPER ROLE of the personnel man today, whether a specialist or a generalist? What methods and techniques are most enduring, most likely to produce a brand of personnel administration that is truly responsive to management needs?

Let us consider these essentials in terms of the five general roles of the personnel man:

1. First, and perhaps foremost, as a claimant to special insight into problems of human resources and human behavior, the personnel officer must set an *example* for the rest of the organization. Good supervisory practices, discriminating placement, imaginative training, fairness in treatment, efficient manpower utilization —all the standard virtues, must characterize his department. His preaching must be backed by exemplary practice if it is to be effective. In addition, he must demonstrate ability to make maximum use of groups, to form and get results out of committees, to get cooperation between different groups—in short, to have and practice a faith in the inherent desire of people to do a good job, to generate good ideas, and to get along with each other.

2. The predominant role of the personnel man is necessarily that of *advisor*. Because he is the person who concentrates his full time and attention on the human side of organization, he must be assisting line management at every time. His voice should be heard especially whenever change is in the wind—reorganization, expansion, retrenchment. If his advice cannot always be on a "what to do" basis, it can at least be on a "how to do it" basis. He must be alert to conditions which may cause trouble and must be able to speak authoritatively on short notice, a requirement that demands the utmost in professional competence. Finally, he must be able to advise individual supervisors and employees from time to time, helping them to meet their needs and adjust to their work demands and environment.

3. Frequently the personnel executive must serve as an *interpreter*. This demands more than an ability to make a technical interpretation of rules and requirements laid down by management. It means explaining and reconciling the reasons for the rules, and it calls for either being convincing about it or willing to seek change where change is called for.

More important, the personnel man finds himself in the role of interpreter (occasionally even arbiter) between various groups within the organization. Inescapably, he owes his primary allegiance to management. In his role as interpreter or arbiter the personnel man may concern himself with resolution of conflicts between employees, between supervisors, and, only as a representative of higher management, between supervisor and employee. This is a delicate balance to maintain, and

reverence for democratic processes is nowhere more sustaining than here. For it is only in making his services wanted and in respecting the wishes of others that the personnel specialist can hope to be successful in this function.

4. A common but often condemned part played by the personnel man is that of *controller*. It is a role alternately assumed to be dominant and decried as inappropriate. The labeling of personnel work as a service pure and simple has confused the issue. As part of the management team, the personnel officer provides a service to the manager; however, it is a realistic fact of life that his very specialization makes it inevitable that the manager will delegate to him some decisions to make, some regulations to apply, some cases to decide on behalf of management.

5. Finally, it is important to take note of an all-too-neglected role of the personnel specialist—that of *observer*. The personnel man should have the staff and time to study his organization as a human mechanism—its trouble spots, its promotion and turnover trends, its employee attitudes, the effects of various personnel policies, and a host of other conditions that can be gauged through modern statistical, psychological, or other research methods.

These five roles—setting an example, serving as interpreter, advisor, and controller, and performing as an observer—are the foundation of personnel technique. But personnel methods can continue to keep up with the times only as the result of a steady maintenance and improvement of the quality of those who spend full time at the personnel function.

■ *O. Glenn Stahl.*
PUBLIC PERSONNEL REVIEW,
October, 1956, p. 253:6.

Ground Rules for Buying a Business

WITH WOULD-BE BUYERS far outnumbering sellers, the prices of most companies that are available for sale have been bid up beyond a conservative evaluation. An error of judgment that might not have mattered much a few years ago can be serious under today's circumstances. Here is a helpful review to facilitate decisions on whether to buy a business, how to find the right one, and how to determine its value.

Why do you want to buy a business? This checklist of key questions can help a potential buyer pin down his planning:

1. Do you have excess plant capacity? While putting excess production capacity to work is often an important justification for buying another firm, it has led to hundreds of mergers and purchases that caused more headaches than they were worth.

2. Could your sales force effectively handle additional products?

3. What type of labor does your firm employ? What other kinds of work could your workforce perform? This consideration is often a reason for *not* adding a particular company.

4. What products do you buy? Could you produce these goods more economically or more dependably yourself—perhaps by purchasing one of your supplier companies?

5. In what geographic area would you want to purchase a new firm?

6. Can you protect your present company against seasonal or other recessions by buying another business?

7. What kind of purchase would fit in with your tax situation?

8. How much financing is available, and at what cost?

9. What are your income goals?

10. Is capital accumulation more important than current income?

11. How much—and what type—of management talent and experience can be spared?

12. What are the talents of the top executive?

Don't buy a company, however good the value, just because it happens to be on the market. Decide what kind of business you want and go after it.

Finding the Right Business. Executives who have been buying businesses with outstanding success report that once they have decided what kind of business they want, they then make inquiries through trade sources—suppliers, customers, or even competitors of the type of firm they want. This is also a time when good relations with a bank can pay off. Your banker has contact with most businesses in the area, and he can also supply you with a hard-headed appraisal of a company's strengths and weaknesses.

Investigate a number of firms before buying. Even if a professional consultant is retained, the experience gained in considering a number of possible purchases is the only way to arrive at a final judgment with complete confidence.

Judging the Real Value of a Business. Where a going concern is being purchased for continued operation, more and more purchasers are basing evaluations strictly on earnings potential. The value of assets (tangible or intangible) that will produce operating earnings is presumed to be included in such a valuation.

Try to obtain audited reports for the last 10 years. Consider three years an absolute minimum. If audited reports are not available, be sure to hire an accountant to look at the books—they may conceal more than they reveal, and it will take an expert to dig out the information you need for a sound evaluation.

Even where past or present earnings figures have been carefully adjusted, there's a certain amount of intelligent guessing involved in predicting future earnings. These precautions can help minimize the pitfalls.

1. Consider a range of probabilities from a conservative minimum to a moderately optimistic maximum.

2. When in doubt, be conservative about your estimates.

3. Base projections on specific

figures (not only specific earnings figures, but available figures as to income, population, trade standards, and trends).

4. Remember that all such projections are estimates, and do not be deluded by a false sense of precision.

5. Use standard ratios (such as earnings/sales ratios) based on experience of similar companies as a guide to your judgment.

6. Keep an eye out for any available indications of trends.

7. Make sure current earnings figures can really be projected.

Best bet is to compare the firm you are appraising with other similar firms. By investigating a number of firms that seem to meet his general requirements, retaining management consultants, or checking the experience of other purchasers of similar companies, the potential investor will find guides for estimating the price/earnings ratio applicable to his situation.

Before attempting to put the maze of book figures into focus, it's useful to figure out what is at the heart of the business. Here are examples of the factors most frequently reported by recent purchasers as the key to the value of the business firm they were buying: personnel with special skills; the owner or manager, whether because of special talents or working twice as hard as any employee; patents; a franchise; trademarks or trade names with great popularity; an especially aggressive sales force; an especially efficient plant layout; "getting in on the ground floor" in an expanding trade, industry, or market.

Why are they willing to sell? The answer to this question, important in any case, is particularly significant in those instances in which the seller—not the buyer—has initiated the contact. There are plenty of legitimate reasons that might make it desirable for owners to sell at a price satisfactory to the buyer. In the absence of some profitable or logical reason for selling, however, the experienced buyer may well suspect that the present owners see the handwriting on the wall.

■ BUYING A BUSINESS TODAY
(Research Institute of America, 585 Fifth Avenue, New York 17, N. Y.).

WHO'S AFRAID? Superstition about the number "13" seems to be on the way out, according to Westinghouse elevator engineers, who report that more than 90 per cent of modern skyscrapers today have thirteenth floors.
—*Office Equipment News* 9/56

Management and the Consultant: An Opinion Survey

HIRING A MANAGEMENT CONSULTANT doesn't always guarantee that a company's worries are over, if the findings of a recent survey by *Management Methods* magazine are any indication.

Forty-one per cent of the executives polled in the survey reported some dissatisfaction with consultants, based on their own experience. A breakdown shows that 23 per cent classified consultants as "too costly," while the other 18 per cent simply called them "over-rated."

On the other hand, 59 per cent labelled consultants "a very valuable service," and not one respondent reported absolutely "no confidence." The respondents were not called on to name specific consulting firms.

Discretion, it would appear, is highly important in choosing a consultant. When asked whether they still retained confidence in consultants after one or more experience with them, 24 per cent of the responding company executives answered a point-blank "no" and another 25 per cent qualified their "yes" answers. Fifty per cent of the respondents didn't think they had got their money's worth from the consulting firm, and almost as many reported that the consultant failed to do the job within original time and cost estimates.

Consultants can, however, take comfort from one significant finding: Eighty-two per cent of the respondents said they had used management consultants more than once.

—*Management Methods* 9/56

Remedies for Strained Switchboards

HOW DO COMPANIES hold down the number of personal phone calls received and placed by employees?

In one survey that was conducted recently, it was found that 47 per cent of the respondent companies allow hourly employees to get calls only in case of emergency, and 6 per cent don't allow them at all. In 27 per cent, a message is taken; in 23 per cent the employee is called to the phone at the discretion of the department head. But in 21 per cent of the respondent companies incoming calls are allowed at all times. For outgoing calls, the breakdown goes like this: not allowed, 5 per cent; allowed at all times, 19 per cent; only in case of emergency, 39 per cent; left to discretion of department head, 39 per cent. Calls may be made and received in the office in 1 per cent of the companies; in 31 per cent they may be made and received at work station or in employee's department; and in 28 per cent, employees must use a telephone booth or toll phone.

—Lawrence Stessin in *Mill & Factory* 8/56

The Boom: How Much Is Too Much?

IS THE ECONOMY growing too fast? The question is one that thoughtful U.S. business men are pondering with increasing concern. Instead of slowing down, as most business men had expected last spring, business has boomed higher and higher, picking up momentum every month.

To bankers and business men, the strongest danger signal is credit, which has been slowed down, but apparently not enough. Despite the tightening of money by the Federal Reserve Banks and the highest bank discount rate (3 per cent) in 23 years, consumer credit is still rising. It has climbed some $4 billion since August 1955 to an annual rate of $37.5 billion.

What worries many business men even more than rising credit is the apparent lack of concern over mounting inflation. The fear that the U.S. is lulling itself into a state of mind which accepts inflation as the normal, natural way of life. "Inflation?" says one San Francisco banker. "Sure, we've got inflation, and we're getting used to it." The question: If everyone becomes "used to" inflation who will recognize the time when creeping inflation becomes galloping, boom-toppling inflation?

Scanning the statistics, U.S. business men have some reason for their growing worries. With employment at a record 66 million, the competition for manpower from expanding industry has pushed wages so high that manufacturing costs are rapidly outstripping the gains from new, more efficient plants. In the last 12 months, over-all industrial prices have jumped about 4 per cent to a peak 123 (1947-49=100). "It's as if we all sat down together—which we didn't—and decided to raise prices," says one appliance-company executive. "It's that old, old devil inflation. Starting with the steel price rise, a spiral has started throughout industry. We've already soaked up two or three cost increases. We just had to pass this one on."

Part of the trouble is that production, already at a peak 144 per cent of the 1947-49 index, is increasingly hard put to supply the insatiable demand for goods and services. On top of that, the enormous expansion programs for virtually every U.S. industry may stretch the economy even thinner next year. After pouring some $29 billion into new investment in 1955, U.S. business expanded at the rate of $36 billion in 1956's first half, about 25 per cent faster than last year.

Will the economy be able to absorb the greater flow of goods at constantly increasing prices? Over-all, the U.S. will increase its productive capacity by about 4 per cent this year, while consumer purchasing power as measured by disposable income (a record $284.9 billion annual rate) will probably also climb 4 per cent. Nevertheless, some individual indus-

tries seem to be expanding beyond their short-term market potentials. All manufacturing industries, for example, will add 8 per cent to their capacity this year, a rate that some economists think is well above their expected average annual increase in sales in the next several years.

Another big problem is how the U.S. will finance the new expansion. Despite economic controls, the enormous demand for money is outstripping the supply of funds, thus pushing interest rates—and business men's costs—even higher. Though personal savings have increased at an annual rate of $4.5 billion, from $16.7 billion to $21.2 billion in the last year, economists doubt that they are rising fast enough to satisfy the demand for money. Other sources of investment funds are also falling behind, e.g., life insurance companies expect to increase their new assets by only $6 billion in 1956. As things stand, says New York University economist Raymond Rodgers, rapidly expanding mortgage credit alone will sop up virtually all new savings accounts this year, plus two-thirds of all the new funds accumulated by life insurance companies.

Few economists question the fact the U.S. economy is on basically stable ground, or that the ballooning U.S. population will eventually absorb all the goods—and more—that industry can produce. Yet there is a very real concern that U.S. business, its eyes firmly fixed on the long term, will not see or accept the short-run dangers of an inflationary spiral that could seriously cripple the economy.

■ TIME, *November 5, 1956, p. 99:1.*

Management and the Professional Employee: A Survey of Company Policies

PROFESSIONAL EMPLOYEES — engineers, accountants, chemists, physicists and psychologists—pose special problems of recruitment, training, salary administration, and the like, in almost any company.

A recent survey conducted by the Bureau of National Affairs, among executives representing 89 companies of all types and sizes throughout the country, reveals some interesting facts about the personnel administration practices used by industry in dealing with these professional employees. Here are some of the key findings of the survey:

A variety of sources are tapped by companies in recruiting professional employees. Those cited most frequently are newspaper advertising, colleges and universities, and employment agencies (both private and public). Other sources mentioned by a sizeable number include professional

journals, professional societies, employee referrals, and "personal contacts" by management.

Recruiting in colleges and universities, of course, is one of the best sources of professional talent. In addition to conducting on-campus interviews, a number of companies try to interest students in their companies through plant tours and summer employment programs. Scholarship programs for undergradutes in the professions are sponsored by one out of three larger firms (over 500 employees), but only one out of 14 smaller ones.

Only about one-third of the companies have a formal indoctrination period for professional employees. The majority of the surveyed companies give their professionals on-the-job training, which often continues for as long as two years. In most firms it takes the form of coaching by an experienced man and/or rotation through different departments. Other devices include the use of periodicals and trade publications, department conferences, and dinner meetings. Only about 15 per cent of firms conduct formal training sessions for professionals.

Professional employees supplement their job knowledge through college or university courses in 55 per cent of larger companies and 48 per cent of smaller ones. Where such training is voluntary (as it is in the overwhelming majority of cases), companies pay the tuition bill to varying extents. Where the training is compulsory, tuition costs are generally paid in full by the company.

About 70 per cent of larger companies and 80 per cent of smaller ones pay for employee membership in professional and technical societies. A number of these companies qualified their replies, stating that they pay for such memberships only in some cases, or that they limit payments for individual employees to one or two societies.

Defined salary schedules for professional employees are found in some 80 per cent of larger companies and 55 per cent of smaller firms participating in the survey. In the great majority of companies, salary increases for professionals are made on a merit basis. In only 6 per cent of larger and 20 per cent of smaller firms are automatic increases given, and in over half of these companies the automatic increases apply only to the lower end of the salary schedule.

In some three-fourths of companies which have definite salary schedules, the schedules are kept confidential. The remaining firms tell their professional employees what the salary structure is for their particular profession—that is, what the salary range and the intermediate steps are—although individual salaries are kept confidential. Information on individual salaries is also kept confidential in companies which have no defined salary schedule.

To guard against upsetting their salary structure when hiring experienced professionals, most companies say they attempt to keep the salary structure on a competitive basis, and "slot" in new employees according to their experience. One larger company follows the practice of hiring only at beginning salary levels, while another

hires at salaries no higher than the midpoint of the range. Some 5 per cent of companies report that maintaining their salary structure represents a considerable problem.

Separate personnel administration for professional employees is maintained by only 10 per cent of the larger companies and none of the smaller ones. Executives in roughly half of the companies state that their personnel practices for professional employees are substantially the same as those for other white-collar or blue-collar employees.

Among the remaining companies, a number of respondents say their professionals are given the same treatment as other *exempt* employees —which means (among other things) that they receive certain advantages not accorded to rank-and-file employees. In some companies, the professionals work under fewer restrictions than any other employees, and receive more benefits and privileges.

A substantial number—one-fourth of the larger companies and one-half of the smaller ones—say no special problems are presented by professional employees.

A majority of respondents, however do point to special problems connected with professionals. For the most part, these concern professional morale as it is affected by compensation, responsibility, promotional opportunities, and desire for recognition. A particularly pressing problem —cited by some 40 per cent of larger and 15 per cent of smaller firms—is the recruiting of qualified professionals in the present tight labor market.

■ PERSONNEL POLICIES FORUM: PROFESSIONAL EMPLOYEES *(Bureau of National Affairs, Inc.)*

The Engineer Shortage—No Relief in Sight

THE ENGINEER SHORTAGE may get a lot worse before it gets any better, according to Dr. Joseph W. Barker, president of the American Society of Mechanical Engineers, who cites figures recently released by the Engineers Joint Council.

Responses to a survey of 414 industrial and government organizations, employing about 140,000 engineering graduates, indicate that these organizations expect to increase the number of their engineer employees by 10.4 per cent before the end of 1956, and their actual estimated requirements would call for an increase of 14.2 per cent if the men were available.

"Our technology is threatening to strangle itself in its own complexity," Dr. Barker said. "Engineers and scientists are themselves creating the need for more engineers and scientists, in geometrical progression. Herman Wouk, in *The Caine Mutiny,* described the Navy as a master plan devised by geniuses for execution by idiots. It may be that some day someone will describe our technology as a master plan designed by a few geniuses for execution by a great many geniuses."

How to Quit a Job

SOME YEARS AGO, a young sales executive walked into his boss's office, angrily told the man off, announced his resignation, and walked out. Not surprisingly, he soon repented his outburst and resolved never to make such a mistake again. As the years passed, he held a number of important positions with three different companies. Each time he obtained a new job, he left his old one with the best wishes of his colleagues and superiors.

Then, five years ago, he applied for a senior vice presidency in one of the country's largest manufacturing concerns. He was asked not only for recommendations from the firms with which he'd worked during the previous 20 years, but also from the one with which he'd begun his career. The man was stumped; he could ask neither the boss whom he had denounced nor his top assistants for a recommendation.

Luckily he was able to get a good reference from a onetime fellow worker, and the manufacturing concern gave him the vice presidency. "But," he says, "I was surprised that, even with all my experience in business, one mistake I made in quitting a job years ago could come so close to upsetting my career when I was 50."

Many an executive has actually been turned down for an important post because he'd once forgotten this cardinal rule about his work career: Leaving a job is just as important as either performance on the job or getting another one.

Just what should you remember to do when you quit a job? Here's the thinking of a half-dozen top New York executives.

A smart man, they agree, never quits one job before he has another. While he's in the process of getting another position, of course, he tells no one in his own company of his plans, because if the news reaches the boss, he may be fired before he's had a chance to quit. Or there's a chance his boss will persuade him to stay on. If he's already told his colleagues he's quitting, he may find it embarrassing to change his mind.

Once he does line up another job, however, the wise careerist will refrain from making an absolutely final commitment. "The man who takes one job before he formally quits another may have cause to regret it," says the personnel director of one large management consultant firm.

One young executive, he recalls, had successfully finished an employee development program with a large oil company. Although he didn't know it, the company was in the process of buying a subsidiary outfit in which he was slated to hold an important post. In the meantime, he was given a dull interim assignment. As a result, he fumed, fussed, and finally obtained another job.

When he submitted his resignation,

his boss told him of his company's plans. The man recovered himself quickly, acknowledged his mistake, and said he'd like to stay on. His boss understandingly accepted his change of heart, but the company to which he'd committed himself hit the roof.

If he ever does decide to leave his present position, he may be blackballed by more than one other company that's heard of the incident.

When he walks into his boss's office, the wise worker won't use his offer of another job as leverage to obtain a promotion from his present employer, however. If he does, his boss might feel justified in firing him rather than letting him quit.

The man who is leaving his job to join a directly competing firm faces a special problem in submitting his resignation. One executive observes, "The person who goes to a direct competitor must be careful to avoid even the slightest breach of ethics. In many cases, he'll be wise to assure his present boss—either directly or indirectly—of his intentions. Otherwise he'll be getting a bad name throughout his field."

In moving from one company to another the up and coming man will be smart to take these five steps: (1) He'll resign in person. (2) He'll submit his resignation to his immediate superior. (3) He'll give sufficient notice. (4) He'll recommend a successor. (5) He'll ask for a letter of recommendation.

The far-sighted executive will maintain interest in his job until the day he leaves and he'll tell his assistants every trick of the trade he can think of that will make their work easier. "Never forget, there's this highly practical reason for quitting a job with care," says the personnel man quoted previously. "Doors never close forever."

Some years ago, he recalls, an executive was offered a unique opportunity by a firm directly in competition with his own. "He talked it over carefully and frankly with his superiors, and they admitted they couldn't match the offer. So he resigned. Two years later, the firm that had hired him was sold and the man found himself out in the cold. But he'd left his old position so gracefully and graciously that his former employer was delighted to rehire him—at a considerably higher salary. He learned—the easy way—that quitting a job with care can pay big dividends."

■ *Hugh Sherwood.*
TODAY'S LIVING, *The Herald Tribune Magazine (© 1956, New York Herald Tribune, Inc.), October 21, 1956, p. 4:2.*

THE MAJORITY of shareholders in publicly owned corporations are members of the "weaker sex," according to the New York Stock Exchange's latest census. At the start of 1956, women represented 52 per cent of the stockholder group. In 1952, they comprised 49.8 per cent of the total, according to a Brookings Institution study in that year.

—*Journal of Commerce* 6/11/56

More Pressure on Presidents

THE BASIC PROBLEM with many companies seems to be a result of too much success: The president has been removed more and more from direct contact with day-to-day operations, but his decisions must still be based on the full facts of these detailed operations.

A recent survey of hundreds of corporation presidents conducted by *Dun's Review and Modern Industry* indicates that the pressure is increasing at the top level. Very few presidents have fewer people reporting to them than they did two years ago, and 40 per cent are now carrying a heavier work load.

The survey shows that presidents frequently have too many people reporting to them. Although in each industry size group, the median number (the midpoint figure) of reporting subordinates was close to the recommended span of control, there were numerous variations.

For example, in companies with less than 50 employees, the number reporting to presidents varied from one to sixteen, while the median was six. In the next industry group, companies with from 50 to 99 employees, the number also ranged from one to sixteen, while four was the most frequently mentioned number. In companies with from 100 to 249 employees, top-level subordinates ranged from one to twenty, and again four was the most common.

The range was quite similar—from 2 to 21—in companies with 250 to 499 employees, while the median rose slightly to seven. In companies with 500 to 999 employees, the number ranged from one to eight, and the median was five. In larger companies, those with from 1,000 to 2,499 employees, the span of control varied from 6 to 23, while nine was most often mentioned. In companies with more than 2,500 employees, the number reporting ranged from four to fifteen and eight was the median.

—*Dun's Review and Modern Industry* 10/56

Getting Employee Ideas for the Safety Campaign

BY PUTTING a different department in charge of its safety campaign each month, the Quaker Oats Company (Cedar Rapids, Iowa) has been able to utilize the ideas of the employees themselves.

Employees have displayed considerable ingenuity in dramatizing various aspects of the safety program. One department, for example, set up a life-sized mannequin that was minus an arm. A sign beside this display carried the legend, "It Started Out as 'Only a Little Scratch'!" To remind employees to be careful on their vacations, another department obtained a wrecked car from a used car lot and displayed it near the plant entrance. A sign carried this warning: "This car was driven by a man who isn't able to take a vacation."

—*Labor Policy and Practice* (Bureau of National Affairs, Inc.) No. 322

Hiring Older Workers: A New Look at Pension Costs

ARE THE COSTS of pensions and insurance benefits still a significant obstacle to the employment of older workers? In a recent report issued by the U. S. Department of Labor, a committee of experts reaches some interesting conclusions on this question. Here are some of the key points of the report:

Pension considerations are viewed by many employers as reasons for not employing older workers, although usually not as the most important reasons. The reasons given are generally of two kinds: (1) that the cost of providing adequate pension rights for a newly-hired older employee is much greater than for a younger one; (2) that to permit older new employees to waive pension rights, or to earn less than "adequate" pension rights, would create an unfavorable public reaction toward the employer.

The basis for the second of these reasons has been removed or greatly reduced in recent years, the report points out, by the extension of social security coverage and the increase in benefits earned. It is estimated that men aged 45 to 64 working steadily at present-day wages will have earnings sufficient to qualify them for monthly retirement benefits averaging $100 for a single man. A modest supplementary pension such as could be earned in 10 years or less under most pension formulas ought not to subject the employer to unfavorable criticism.

Two assumptions tend to lower the apparent cost of providing retirement benefits for persons hired at a younger age: (1) a younger person is more likely to die, become disabled, or otherwise terminate his employment before reaching retirement age; (2) charges to current production expenses, such as contributions to a pension fund, can be lower because they will accumulate and earn compound interest over a longer period of time.

Both assumptions, says the report, are fallacious. The apparent saving from the probability of death or disability is counteracted in many programs by the cost of benefits payable in such eventualities. And there are two compensating factors which tend to reduce the age-cost differential. First, the extension of life expectancy will lengthen the retirement period and therefore increase the total amount of pension benefits, unless retirement ages also increase. Second, a growing proportion of private pension coverage ties benefits to future or final earnings. Moreover, the younger man has a longer time in which to increase his individual earnings through experience, added skills and seniority.

While private pension plans frequently provide for retirement at age 65, it is possible that later retirement

will become economically necessary as the number of older workers continues to grow. The saving in benefit cost would be substantial: with no increase in benefits, a normal retirement age of 67 would cost 15 per cent less than one of 65.

Benefits of group life insurance, workman's compensation, and sickness and accident insurance cost no more for older workers. In fact, if benefits for dependents include maternity care, the package cost may even be less for the older man.

A major purpose of adopting a pension-and-insurance program is to help improve the performance of the working force through better industrial and community relations. Selective hiring of older workers can hardly add more than a small fraction of 1 per cent to the current annual charges for the compensation package, and may or may not add anything to the ultimate cost of pensions. But it can add significantly to the basic purposes of the pension-welfare program. In the light of these facts, the report concludes, the cost of private pension and insurance benefits ought not to be considered a real obstacle to hiring on the basis of ability without regard to age.

■ EMPLOYEE BENEFIT PLAN REVIEW, *October, 1956, p. 7:3*

What's Behind the Stock-Split Fever?

STOCK SPLITS today are at an all-time high, surpassing even the level of 1946. In the last twelve months, nearly one hundred corporations, practically all of national renown, have announced to their shareowners that they were to be given two or three pieces of paper for every one they already had. Why this rush to substitute a 200-share certificate for a 100 when there is no real gain in asset value?

Rising stock prices, usually accompanied by higher earnings and dividends, are a prerequisite of stock-splitting. No management which wants to keep shareholder good will would split its stock, attracting much public attention as well as new shareholders, if it felt it could not at least maintain its current pro-rata dividend. In fact, many managements seek to exploit further the favorable publicity of a stock split by currently increasing the dividend payment on the new shares. This has always been the significance of stock splits.

But in recent years it has become evident that stock-splitting has become something more than merely a boom-time projection of a "more the merrier" philosophy into corporation finances.

The additional significance rests on the growing realization by management that today stock certificates are purchased by millions of wage earners

as their stake in the future and retained by millions of retired folk as a mainstay of their financial independence. And all are consumers—and voters.

The corporate share of stock has, in effect, become a two-way street, giving the corporation a claim on the loyalties of its millions of public shareowners, as well as giving shareowners a right to share in the profits. Thus, the more claims a company has, the better—and stock splits are one way to increase the number of public shareowners and, therefore, of potential customers. More people will buy shares selling at $50 than will buy shares selling at $100 or $150.

In a highly competitive market for everything from lipstick to automobiles, from movies to transportation, managements producing consumer items hope this increased number of shares, distributed among a wider circle of investors, will link more investor-customers to their products.

However, there is a second value to stock-splitting that cannot be ignored even by a large company which does not seek customers among the general public. This is the public relations advantage that goes with reducing the selling price of a share. Labor leaders or politicians find it much harder to make an issue of a share selling for $35 than one for $140. The latter sounds like a money trust; the former is a poor man's retirement stake.

From the point of view of internal management, there are additional values to stock-splitting. A stock selling at a lower price and held by more people will make it much easier to raise new capital by offering subscriptions to present holders than if the shares are narrowly held, not as widely known and do not enjoy so liquid a market.

Secondly, where management is threatened by invasion, a wider distribution of stock makes retention of control possible with a far smaller block in the hands of management. In fact, in recent years it is no secret that "take-over" artists have sought out companies with small capitalization.

As far as the general public is concerned, the splitting of shares has a two-fold result. The uninformed, first-time small investor tends to buy low-priced issues. Failing to find many among the list of long-established, conservative companies, he can easily be sales-talked into gambling on shares with little or no value.

There is a reverse side to this coin. Merely because a stock selling at $20 can be bought by many more than would consider it at $60 (even though the $60 share represented three of the other), the $20 certificate may well become overpriced in the rush to buy.

As in all overbidding, there is often a day of reckoning. Within the last year quite a few split stocks, having become overpriced by advance rumors of splitting or during the first flush of trading in the cut-price shares, have actually shown declines.

But the fact remains that the vast majority of modern-day shareholders love stock splits, and most corporate

managements will try to dish 'em out as often as they can. As they do, public ownership in the country's big corporations will continue to spread. In the last four years alone, the number of stockholders has been increased by one-third, bringing the total to 10 million persons—a process that beyond doubt has been aided by the flood of stock splits.

■ *Sam Shulsky*, CHALLENGE, *October, 1956, p. 36:4.*

How Dividend Payouts Are Mounting

RECENT FIGURES released by the Commerce Department show the uninterrupted climb of dividends received by U.S. investors in the postwar decade. Stockholders today pocket almost twice as much in cash dividends as they did in 1946. This tremendous rise has been shared by every major business segment and virtually all industrial sub-divisions listed by the Commerce Department.

So far this year, cash dividends are running a full 15 per cent ahead of last year, well on the way to a new record. In the vast manufacturing group, most industries have advanced 10 to 20 per cent over 1955.

Corporate profits have also increased sharply in the past 10 years, though not nearly so regularly nor so fast as dividends. As a result, the earnings retained by companies have fluctuated sharply during the period; last year they were 15 per cent below 1947. Even so, U.S. corporations are currently retaining a staggering $9.6 billion out of net profits to finance expansion, build up working capital, etc.

Since World War II the proportion of earnings paid out to stockholders has also increased somewhat. The payout ratio now stands at 56 per cent, up from 43 per cent in 1946 though below the postwar high of 61 per cent in 1954. Nonetheless, payouts in these expansion-oriented days remain well below traditional prewar levels. For example, in 1939 companies paid out 76 per cent of the meager $5 billion they netted.

—*Investor's Reader* (Merrill Lynch, Pierce, Fenner & Beane, New York) 10/17/56

New Steam for the Economy

THE GREATEST CAPITAL-SPENDING surge in history—one that drove the economy to record highs in '55 and promises to propel it still higher in '56—shows no sign of petering out. This fact stands out clearly in the first Quarterly Survey of Capital Appropriations conducted under *Newsweek* sponsorship by the National Industrial Conference Board.

During the first six months of 1956, despite some soft spots in the economy (autos, housing, agriculture), the nation's 1,000 largest manufacturing corporations approved about $8.5 billion in new capital spending. That was 39 per cent more than these same firms OK'd in the like period last year.

Manufacturers' capital-appropriations backlogs—spending not yet under way but formally approved—stood at $10.4 billion at the end of the first half, $2.2 billion more on January 1.

How solid is the appropriations backlog? Will tight money and the structural steel shortage lead to cancellations, cutbacks in future plans, or postponements?

Although this survey was undertaken before the latest hike in interest rates and before the summer steel strike turned order books into a temporary shambles, the evidence on the effect of higher interest rates is encouraging. The top 1,000 manufacturers canceled only $209 million in approved capital appropriations during the first half (versus the $8.5 billion in new approvals) though the prime bank rates rose from 3 to 3¾ per cent.

Here's a rundown of capital-spending plans of a few industries in the survey, along with some plans already publicly announced by individual firms:

Nonferrous metals: Producers in this field seem to think their future the brightest of all. Reporting companies approved $698 million in capital spending during the first half, a mountainous 265 per cent more than a year earlier.

Iron and steel: Producers here approved only 9 per cent more capital spending in the first half of 1956 than they had the year earlier. The major reason: They started from a very high base.

Fuel: The petroleum and coal products industry also showed small percentage gains (8 per cent). As with iron and steel, this is probably partly because of a huge base.

Transportation equipment: While producers of transportation equipment—everything from autos to freight cars and airplanes—approved only 8 per cent more capital spending during the first half of 1956 than in early 1955, the over-all spending budget for reporting companies was high ($469 million) as was the backlog at midyear ($457 million). Large orders for jet and turboprop airliners indicate that

plane-makers will maintain, if not expand, their capital budgets.

Rubber: Rubber-products companies decided to approve \$97 million in new capital spending during the first half, 56 per cent more than during the like period a year earlier. This raised appropriations backlogs 128 per cent, to \$130 million.

Chemicals: Despite a dip in fertilizer output due to the farm slump, the demand for other chemical industry products (everything from chlorine to polyethylene and new synthetic fibers) continues so strong that reporting companies boosted new capital appropriations 129 per cent (to \$755 million) during the first half of 1956. The outlook is for a new record.

Paper: Under booming postwar demand, paper and paperboard capacity spurted from 20 million tons in 1946 to 30.8 million tons last year and probably will rise another 7 per cent in 1956.

Food and beverages: The steady postwar climb in consumer incomes and living standards has provided a steady bonanza for food and beverage companies. And the results show up in this year's capital-spending authorizations. Reporting companies increased plant and equipment appropriations 44 per cent in the first half, to \$157 million. The upward trend promises to continue.

Textiles: Despite growing foreign competition and weak domestic demand, reporting textile companies approved \$124 million in capital appropriations during the first half, some 9 per cent higher than a year earlier.

What do all the figures add up to? The whopping amounts of capital outlays already approved by the nation's leading manufacturers, added to the consumers' open-handed buying ways (running at a record annual rate of \$263.7 billion), all but guarantee a strong finish this year for the whole economy.

■ NEWSWEEK,
October 15, 1956,
p. 90:5.

Pollution Control Programs—An Industrial Survey

POLLUTION CONTROL PROGRAMS are in effect in only 24 per cent of the 168 industrial firms of all types and sizes recently polled by *Mill & Factory*. Of the companies that have such programs, 62 per cent say that their pollution problem is waste water. Discharge of smoke or ash is a problem to 40 per cent of the companies, and 22 per cent are concerned with controlling unpleasant odors or fumes.

Pollution control measures have been in effect for more than 10 years in 60 per cent of these companies, and half of them have spent between \$10,000 and \$1 million on their control programs. Among the benefits they have realized are improved community relations, better employee health, lower operating costs, fewer law suits, and reduced maintenance expense.

—Mill & Factory 7/56

Voluntary Health Coverage—A New Record

AT THE END OF THE YEAR, more Americans had more and better voluntary health insurance than ever before, according to data assembled by the Health Insurance Council.

During 1955, the number of people in the United States with hospital expense protection increased by 6.1 per cent, to a new high of over 107 million. This growth rate was more than three times as rapid as the rate of growth for the population as a whole (which was about 1.9 per cent). The number covered by surgical expense protection grew at a rate of 7.0 per cent to almost 92 million.

Regular medical expense protection is spreading even more rapidly. Over 55 million persons are covered, for an increase of 17.5 per cent.

The rapid growth of hospital, surgical, and regular medical expense insurance during 1955 continued the spectacular progress that has been made during the past decade. Since 1941, the number of persons with hospital expense protection has increased nearly ninefold, those with surgical expense coverage have multiplied over 17 times, and regular medical expense protection has increased 14 times.

The greatest advance of all in 1955 was made by major medical expense protection. At the end of the year, more than 5 million persons were covered—a jump of 138 per cent. Almost all of the 5 million were covered by group policies.

Loss-of-income protection—the oldest form of voluntary health insurance—covered more than 39 million workers by the end of 1955. This does not include the millions of employees who have some loss-of-income protection through their employers' informal wage-continuation practices.

Insurance companies provide most loss-of-income protection, covering over 30 million workers. Protection is also provided by paid sick leave plans, union-administered plans and employee mutual benefit associations.

The rapid spread of voluntary health insurance has been accompanied by a striking increase in the breadth the protection provided. During 1955 a total of $3.1 billion was paid to—or on behalf of—health insurance beneficiaries. This was an increase of 15 per cent over the total paid in 1954.

—*Best's Insurance News* 10/56

HOME SWEET HOME: When the Bureau of the Census in 1950 made a detailed inventory of 46 million dwellings in the U.S., it uncovered startling conditions. More than 20 million of these units were 31 years old or older, and another 20 million had no central heating—nearly one-quarter of them in the North Central states. It was equally surprising to discover that 5.1 million apartments and houses had no running water. Another 5.5 million that *had* running water had no private toilet or bath, and more than 3 million of these were in city housing, not on farms!

—*The Biddle Survey* (Biddle Purchasing Company, New York) 8/14/56

ALSO RECOMMENDED

Brief Summaries of Other Timely Articles

GENERAL

AUTHORS IN SEARCH OF THE BUSINESS MAN. By Kenneth S. Lynn. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), September-October, 1956. $2.00. Although writers are treating him more kindly these days, the business man in American literature is still the man nobody really knows, says this author in an analysis of fiction and drama dealing with business men. Many writers, lacking knowledge of business life, have shown the business man everywhere except at work in his office; others, having the knowledge, have been short on creative talent. Despite the popularity of such recent novels as *The Man in the Gray Flannel Suit* and *Executive Suite*, the author concludes that there is still no satisfactory fictional portrayal of office life in America.

GROUND RULES FOR GIVING. By Claude L. Alexander. *Public Relations Journal* (2 West 46 Street, New York 36, N.Y.), August, 1956. 75 cents. Business institutions are playing an increasingly important role in supporting educational and charitable institutions, contributing over $400 million in 1954 (the latest year for which figures are available) and probably even more in the succeeding years. In this article, the author describes the principles on which one large corporate contributor (Standard Oil Co. of New Jersey) allocates its donations, taking into consideration both its social responsibility and corporate objectives viewed in terms of enlightened self-interest.

MANAGEMENT FROM BELOW SPREADS SKILLS. By Herbert Harris. *Nation's Business* (1615 H. Street N.W., Washington 6, D.C.), September, 1956. Reprints 10 cents. Handing job descriptions up the management ladder instead of down from the top level at John Hancock Life Insurance Co. has produced higher supervisor morale, improved efficiency, and given top executives more time for thinking and planning, says the author. The changes in administrative structure were made when supervisors, asked to describe their own jobs as they wanted them, revealed a desire for more management responsibility. Tasks normally handled by division managers were then shifted to the supervisors, enabling the division managers to relieve the next management level of some of *its* load, and so on.

HOW YOU CAN BE BOSS OF YOUR DESK. By Robert B. Wilson. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N.Y.), September, 1956. Reprints 35 cents. That paperwork mountain on one's desk can be melted down by a change in work habits, says the author. He describes three simple rules for keeping the desk top visible: Shut off the flow of useless reading matter, shelve material that isn't urgent, and act on important paperwork immediately.

LIVING WITH THE ANTITRUST LAWS. By Herbert C. Morton. Amos Tuck School (Dartmouth College, Hanover, N.H.). Gratis. Conflicting federal legislation, shifting court opinions, and changeable enforcement policies have made the antitrust laws difficult for business to live with, says the author; nevertheless, they can help to preserve a competitive economy. Discussing a recent report by the Attorney General's National Committee to Study the Antitrust Laws, he concludes that it has helped to clarify existing antitrust policies, particularly in regard to mergers and "fair trade" laws.

SUPPLEMENTAL UNEMPLOYMENT BENEFITS. By Edward D. Wickersham. Research Series No. 13 (Bureau of Labor and Management, State University of Iowa, Macbride Hall, Iowa City, Iowa). 25 cents. The development and spread of SUB plans poses complex problems for state legislatures that are asked to amend their unemployment compensation laws to permit integration of the two benefit systems. In this study, the author examines the major SUB plans, discusses current legislative considerations, explores the long-term social questions involved, and calls for a complete reevaluation of the unemployment compensation system.

WANTED: EXECUTIVES WITH "NO" HOW. By Frank M. Kleiler. *Commerce* (1 North La Salle Street, Chicago 2, Ill.), October, 1956. 35 cents. Saying "no" gracefully is an important art for any executive to learn, says the author, pointing out that negative answers which arouse resentment can lose customers and impair employee morale. The author describes various techniques used by management men to say "no" tactfully, ranging from the executive who gives his unwelcome answer fast and then diverts the conversation to something pleasant, to the boss who is so adroit that he persuades supplicants to withdraw their requests.

INDUSTRIAL RELATIONS

YOUR INFORMAL ORGANIZATION: DEALING WITH IT SUCCESSFULLY. By John D. Stanley. *Personnel Journal* (P.O. Box 239, Swarthmore, Pa.), July-August, 1956. 75 cents. Almost every company has its closely-knit groups that have no recognition on the organization chart, but nevertheless greatly influence the tone and even the outcome of the enterprise, according to the author. This article, which cites four "guides to action" for dealing with this informal organization, includes a check list to assist in evaluating its nature and influence in the company.

LOCATING AND DEVELOPING THE RESEARCHER. By Robert F. Pearse. *Armed Forces Management* (208 South Second Street, Rockford, Ill.), September, 1956. 35 cents. Employers can increase the success potential of their industrial research programs by paying more attention to the personality needs of their scientists, the author believes. He suggests three ways to make a research team more effective: (1) Give researchers the type of work which fulfills their "psychological job demands;" (2) guide research supervisors toward a better understanding of their subordinates; and (3) study staff interrelationships to learn if personality clashes are impeding joint research efforts.

PLACEMENT OFFICES OF THE UNITED STATES FOR 1956-57. *Journal of College Placement.* (35 East Elizabeth Avenue, Bethlehem, Penna.), October, 1956. $1.50. This useful directory for employment recruiters lists placement offices at colleges and universities throughout the country. The listings include the names of the placement directors and the dates when interviews will be scheduled.

USE OF A SELECTION PANEL IN HIRING NON-TECHNICAL PEOPLE. *Personnel Journal* (P.O. Box 239, Swarthmore, Pa.), July-August, 1956. 75 cents. This condensation of a guide used by the Imperial Chemical Industries, Ltd. (London, England), describes a rigorous procedure designed to make possible the selection of a few exceptional individuals from each crop of candidates for executive training positions. Involving various tests and

interviews over a two-day period, this selection method enables members of the panel (who are selected from various departments of the company) to appraise candidates more effectively than would be possible under the conventional interview method.

THE COOPERATIVE SYSTEM. By Robert I. Hudson, *Journal of College Placement* (35 East Elizabeth Avenue, Bethlehem, Penna.), October, 1956. $1.50. The cooperative system of college education—under which a student alternately attends school and gets actual job experience with a company—has important advantages, says the author, for both the student and the employer, who benefits from reduced training costs and has an opportunity to judge the student's abilities on the basis of actual job performance. Unfortunately, says the author, the demand for cooperative-system students exceeds the supply, and he suggests ways in which employers can help to increase the number of cooperative programs.

OFFICE MANAGEMENT

RECORDS PROTECTION. *Modern Office Procedures* (812 Huron Road, Cleveland 15, Ohio), October, 1956. 50 cents. Every year hundreds of business firms suffer severe financial loss because they failed to provide adequate protection for their valuable records. This feature discusses elements of effective records protection, including: assigning the primary responsibility for safeguarding records; classifying papers according to their importance; choosing the right type of safe for protection against fire; and guarding records from water damage, theft, pests and atomic disaster. One article in the feature describes how the Alliance Machine Co. (Alliance, Ohio) set up a microfilming program that provided better records protection and achieved a 90 per cent saving in storage space.

ALL PAPERWORK COSTS ARE CONTROLLABLE. By A. C. Sipes. *The Office* (232 Madison Avenue, New York 16, N.Y.), October, 1956. 35 cents. Pointing out that paperwork costs can amount to half the total sales and administrative costs of a business, the author recommends a comprehensive paperwork control program which would include these elements: (1) reducing the creation of office papers; (2) applying control techniques to handling office papers; (3) using functionally designed filing systems and procedures; (4) providing adequate protection for valuable papers; and (5) instituting storage and disposal schedules. He suggests a number of specific ways in which paperwork procedures can be made more efficient and economical.

ORGANIZING FORMS CONTROL—POLICY THROUGH PROGRAM. By Tony Piscatella. *Office Management* (212 Fifth Avenue, New York 10, N.Y.), September, 1956. 35 cents. In spite of high-speed electronic data-processing equipment, the author says, paperwork in some form is here to stay. This article, which outlines a procedure for setting up a forms-control program, emphasizes that management must realize the profit potential in clerical cost reduction and establish forms control as a company policy before any such program can be fully effective.

BUYING FOR AN "OFFICE PRODUCTION LINE." *Purchasing* (205 East 42 Street, New York 17, N. Y.), October, 1956. $1.00. An article describing the special techniques developed by the purchasing department of John Hancock Mutual Life Insurance Company to meet the

requirements of a $7-million-a-year office buying job. By pursuing a program of standardization, maintaining its own equipment repair shop, and keeping complete records on equipment and vendors, the department has achieved important savings and high equipment quality. Other purchasing policies which have proven useful in obtaining these results are: keeping informed on new products, consistently buying in economical quantities, and developing effective public relations policies for dealing with suppliers.

"MY BOSS IS TOPS, BUT . . ." By Marilyn French. *American Business* (4660 Ravenswood Avenue, Chicago 40, Ill.), October, 1956. 35 cents. This article catalogues a variety of complaints voiced by secretaries, the major one being that they don't get enough information from their bosses. Other secretarial peeves: The boss who gets busy after 4:30 every afternoon; the mumbling dictator; the impatient executive; and the temperamental boss. The article concludes with ten hints for keeping secretaries happy.

PRODUCTION MANAGEMENT

LOOK OUT! YOUR GOOD FOREMEN TODAY MAY BE MISFITS TOMORROW. By Auren Uris. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N.Y.), October, 1956. 50 cents. Far too many foremen will soon be obsolete unless they learn to adjust to industrial change, says the author. Baffled by technological complexity, bitter at the idea of having to cooperate with staff men, irritated at the new, educated worker who won't be handled by dictatorial methods, and afraid of making costly mistakes, these "problem" supervisors can be helped, says the author, by performance-centered training which concentrates on giving them both greater job skill and improved motivation.

INDUSTRIAL PLANT LAYOUT. By John B. Harju. *Consulting Engineer* (227 Wayne Street, St. Joseph, Mich.), October, 1956. $1.00. Pointing out that sound plant layout means increased production and reduced manufacturing costs, the author examines the many factors involved, from choosing a superior plant site to providing built-in protection from fire hazards. Machine tool layout, materials handling, and other important elements of plant operation are discussed here from the consulting engineer's viewpoint.

HOPPER FEEDERS: BEST BET FOR SMALL PLANT AUTOMATION. By W. G. Patton. *The Iron Age* (Chestnut and 56th Streets, Philadelphia 39, Pa.), August 23, 1956. 50 cents. Hopper feeders, which can feed machines with parts of many shapes and sizes more quickly, accurately, and safely than human operators, are described by the author as "the poor man's best bet in the hectic race toward automatic manufacturing." This article describes some of the relatively simple, low-cost feeders that have enabled some manufacturers to reduce labor costs, increase their degree of quality control, and raise output rates on existing machines by as much as 400 per cent.

TRIMMING COSTS WITH SMART LAYOUT. By Ernest Schleusener and Lester Young. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N.Y.), September, 1956. 50 cents. Because machine arrangement and materials flow have a significant effect on manufacturing costs, the Mueller Brass Co. has made plant layout an important part of its cost-reduction program. This article describes the improved layout achieved by the company with a 10-step procedure featuring the use of process flow charts, transparent layouts, and models.

MARKETING MANAGEMENT

HOW TO TRACK DOWN YOUR MARKET POTENTIALS. By John C. Spurr. *Industrial Marketing* (200 East Illinois Street, Chicago 11, Ill.), September, 1956. 25 cents. In our expanding economy, many industrial manufacturers lack sufficient knowledge of their market opportunities, the author says, and in this detailed article he describes how a company can gain accurate information by conducting a thorough survey among its potential customers. Various survey techniques are discussed, including mail questionnaires, field investigations and telephone queries.

HOW TO THINK ABOUT A BRAND NAME FOR A NEW PRODUCT. By James M. Vicary. *Sales Management* (386 Fourth Avenue, New York 16, N. Y.), August 3, 1956. 50 cents. Everybody from the chairman of the board to the delivery boy thinks he can select a good name for a new product, the author observes, and reducing the long list of suggestions to a few likely candidates is a difficult chore. This article offers 59 do's and dont's as a guide for giving the "new baby" the name with the greatest marketing appeal.

THE PRICELESS INGREDIENT. By Beatrice Judelle. *Challenge* (475 Fifth Avenue, New York 17, N. Y.), November, 1956. 20 cents. The competitive advantage enjoyed by manufacturers of nationally advertised brand-name products has been reduced somewhat in recent years, the author asserts, pointing out that department stores, by selling their own private brands at lower prices, have made consumers skeptical about the higher-priced brand-name products. She contends also that many consumers are bewildered by some brand-name manufacturers' practice of putting out products in competition with one another—e.g., a soap powder and a detergent.

MATURITY FOR TRADE SHOW EXHIBITS. *Industrial Marketing* (200 East Illinois Street, Chicago 11, Ill.), August, 1956. 25 cents. During the past 10 years, the trade show has become a major advertising medium, as industrial advertisers have awakened to its potentialities for reaching an intensely interested buyer group. This section surveys recent developments and new techniques being used by companies of all sizes to obtain the maximum benefit from their trade show exhibits.

FINANCIAL MANAGEMENT

A RE-EXAMINATION OF THE 1954 REVENUE CODE. By Matthew F. Blake and Harry Janin. *The Journal of Accountancy* (270 Madison Avenue, New York 16, N.Y.), September, 1956. 75 cents. A two-part article on problems arising from the 1954 Internal Revenue Code, with recommendations for improvement and clarification. The first section reviews and evaluates provisions of the Code that apply to such employee benefits as sick pay, medical and life insurance, pension and profit-sharing plans, SUB, and deferred compensation plans, pointing out how tax considerations have accelerated the movement of compensation into fringe benefit forms. The second section considers the Code's applications to partnerships.

MANAGEMENT LOOKS TO THE COMPTROLLER. By Steve H. Bomar. *Auditgram* (38 South Dearborn Street, Chicago, Ill.), October, 1956. $5.00 per year. Although concerned primarily with bank comptrollers, this summary of the

responsibilities of the comptroller and his place in top management includes a general review of the two main types of comptrollership functions: (1) directly delegated functions, including protection of the company's assets and services to other departments; and (2) day-to-day relationships, through which the comptroller can assist top management and the heads of other departments. The author emphasizes the role the comptroller can play in improving relations with other departments, with other companies, and with the general public.

HOW WE REPORT TO VARIOUS LEVELS OF MANAGEMENT. By C. W. Walton, C. A. Kelley, R. L. Poskitt, R. N. Wolfe, and E. H. Anderson. *N.A.C.A. Bulletin* (505 Park Avenue, New York 22, N. Y.), Section 3, October, 1956. 75 cents. In this panel session, five executives of the Minnesota Mining and Manufacturing Company give a composite picture of financial planning and controls in their organization. The subjects included are: company and division planning and control, planning and control of divisional sales activities, financial controls in division research and development activities, financial controls for division manufacturing operations, and the part played by the divisional controller in planning and control.

PENSION AND PROFIT-SHARING PLANS IN BUSINESS REORGANIZATIONS. By Meyer M. Goldstein. (Pension Planning Company, 625 Madison Avenue, New York 22, N.Y.) Gratis. The concerted actions of the attorney, accountant, actuary, trustee, and insurance and pension consultant are invaluable in solving the many problems resulting from business mergers and reorganizations, the author says. In this booklet he discusses aspects of reorganizations that affect existing pension and profit-sharing plans, with special emphasis on tax considerations.

THE BUDGET—MEASURE OF SUCCESS. By V. A. Rydbeck. *Cost and Management* (31 Walnut Street South, Hamilton, Ontario, Canada), July-August, 1956. 50 cents. The orders budget, basis for all budgeting programs in industry, depends for its correctness on the accuracy of the sales forecast, the author points out. In this article, he describes sales forecast methods and various statistical techniques.

INSURANCE MANAGEMENT

CONTRACTUAL LIABILITY AND HOLD-HARMLESS AGREEMENTS. By Virgil R. Howell. *The National Insurance Buyer* (49 West 32 Street, New York 1, N. Y.), November, 1956. 75 cents. Although "hold harmless" clauses are in widespread use in contracts, it has been argued that they tend to create confusion and needless cost, instead of actually reducing the aggregate cost of necessary insurance. The author of this article discusses the arguments on both sides of the question, but comes to no final conclusion as to whether the critics or the proponents of "hold harmless" clauses are right.

MAJOR MEDICAL COVERAGE. By Donald D. Cody. *Best's Insurance News* (75 Fulton Street, New York 38, N. Y.), August, 1956. 50 cents. A program of education often proves necessary before major medical expense insurance, with its deductible and coinsurance features, will be accepted by employees accustomed to first-dollar coverage, the author observes. This discussion of the increasingly popular forms of comprehensive medical coverage includes suggestions that will assist buyers of such insurance in determining whether their plan provides truly over-all coverage.

Cutting the Costs of Paperwork

A Survey of Company Practice

■ ***Lydia Strong***

THE TALE IS TOLD of a newly commissioned Army officer who became irked by paperwork and devised a report to end all reports.

He had a form mimeographed with a sketch of the mess-hall, showing the positions of 20 strategically located flypaper ribbons, each with a code number of his invention. Daily, he filled out and sent in a report on the number of flies trapped on each ribbon. He thought his joke would prompt some sort of official action—and it did.

Some days later, he was approached by fellow officers, who demanded: "Has the Pentagon been after you yet for some kind of flypaper report?" It seemed that Washington had welcomed the off-beat reports as a means of rounding out its information on field activities. Now it wanted similar reports from the other units. Our hero—so the legend goes—supplied his colleagues with copies of the flypaper form; from that day on, all reports going to Washington included a census of dead flies.

Business men who are scornful of "government red tape," however, ought to know that, according to at least one consultant firm (Leahy & Co., Inc., New York), private companies squirrel away

even more papers in proportion to their size than does the Federal Government.

Flypaper reports don't, of course, comprise any significant portion of these papers. Each report, each bit of correspondence, doubtless was needed by somebody at some time. The size and the complex structure of American industry entail an unprecedented amount of recording, accounting, and communication. To keep up with this need, eight million men and women—one-eighth of all U.S. workers—are employed in office work.

The rise in the office force is the more noticeable because it counters an opposite trend in production. Leon C. Guest, Controller of Sylvania Electric Products, said at AMA's Office Management Conference in October: "Manufacturing has become increasingly efficient and less costly . . . but the office, in contrast, has become less efficient and increasingly costly. The number of clerks employed for every 100 manufacturing employees has increased from 11 fifteen years ago to 16 or more today."

MEANS OF CONTROL

How can these costs be kept down? To some observers, the answer looks easy: automation. But to men who face this problem every day, this is only a partial solution. Two-thirds of the representatives of 138 companies who participated in a survey made at the conference on the costs of office work said that methods improvement, rather than mechanization, was the most successful step their companies had taken to reduce clerical costs. Among the improvements they mentioned are study, review, or simplification of procedures; establishment of a methods and systems department; centralization and integration of office functions. Fewer than one-third named mechanization, though the majority have mechanical equipment; of 107 having a punch-card system, for example, only 12 felt that this system had been the major factor in reducing clerical costs.

Of the companies represented in the survey, the large majority—103—are manufacturers. Also included are utilities (9), service organizations (5), insurance (5), and four each of financial institutions, trade organizations, research laboratories, and government agencies. Twenty-two states in all sections of the country, and

Canada, are represented. Company size runs from under 100 employees to 48,000; office staffs number from 5 to 6,000 with an average size of 805.

The average proportion of office workers to other employees, over-all, is 15 per cent; for manufacturers alone, this proportion drops to 12 per cent. A few respondents—government agencies and insurance firms—employ 90 to 100 per cent office workers; a few manufacturers have held the proportion down as low as 2.4 to 3 per cent.

For convenience in considering various aspects of recruitment, training, planning, and controls, the firms were classified by the size of their office staffs. Forty-two firms are small (up to 100 office employees); 61 are medium (101 to 1000) and 29 are large (above 1000). Six respondents did not state the number of office employees.

PROBLEM NO. 1: FILLING THE JOBS

One of the most constant harassments in office management today is the scarcity of qualified applicants for clerical jobs. An office manager may have money in his budget for several new workers, yet still be unable to fill the jobs.

The hardest jobs to fill, say survey respondents, are: first, secretarial and stenographic; second, general clerical jobs such as typing, filing, and machine operating; third, bookkeeping and accounting. A few companies (mainly small ones) say their main problem is finding good supervisors, administrators, methods analysts. The principal difficulty in all job categories is a shortage of competent applicants. In the stenographic and clerical jobs, the second most frequently cited problem is inability to pay salaries that can compete with those offered for other jobs open to the same applicants, both in office or factory work.

One office manager comments wryly: "Every single stenographer considers herself a private secretary." Another complains: "Experienced workers are too expensive; inexperienced ones are in very limited supply."

Aside from supervisory jobs, the difficulties are about the same for companies of all sizes.

Asked to name in order their three most productive sources for applicants, the respondents over-all give most *first place* listings to

TABLE 1

PRODUCTIVE SOURCES OF APPLICANTS FOR OFFICE JOBS
(First Place Listings)

Group and No. Replying	Employment Agencies	High Schools and Colleges	Newspaper Advertising	Unsolicited Applications	Referrals by own Employees	Total*
Small (42) ...	10	4	7	6	2	29
Medium (60) .	12	10	9	5	4	40
Large (27) ...	—	8	1	4	3	16
Other (6)	3	1	2	—	—	6
Over-all (135)	25	23	19	15	9	91

* The total of first places does not equal the total number replying because many persons checked sources of applicants rather than ranking them.

employment agencies, high schools and colleges, and newspaper advertising, in that order (Table 1). But large companies don't share this experience. Most of them consider high schools and colleges their best recruitment source.

When all listings, rather than only first place listings, are considered (Table 2), high schools and colleges come out first, newspaper advertising second, then referrals by present employees, employment agencies, and unsolicited applications. Newspaper advertising receives most mentions from small companies; high schools and colleges from medium-size and large companies. But there is no unanimity nor near-unanimity in any group, on any single recruitment source. All the respondents name at least three sources, and some name five—an indication that, in times of shortage, companies are willing to try every possible resource.

Referrals by employees appear to be more important for large than for small companies. One speaker at the conference, J. L. Wilcox, Vice President in Charge of Employee Relations of the Western Union Telegraph Company, described an "employee round-up" in the company's Chicago office—a three-month campaign that doubled the number of recruits from employee referrals.

Under the spur of scarcity, one-third of the respondents have recently modified their hiring restrictions in order to expand re-

TABLE 2

PRODUCTIVE SOURCES OF APPLICANTS FOR OFFICE JOBS
(Total Listings)

Group and No. Replying	High Schools and Colleges	Newspaper Advertising	Employment Agencies	Referrals by Own Employees	Unsolicited Applications	Others*	Total
Small (42) ...	24	29	24	20	18	2	117
Medium (60) .	39	36	33	30	25	2	165
Large (27) ...	19	10	16	10	16	1	72
Other (6)	4	6	3	4	3	—	20
Over-all (135)	86	81	76	64	62	5	374

* Transfers from other departments (2), from other government departments (2), Civil Service (1).

cruiting. Twenty-two companies have lifted age barriers; 12 have lowered their requirements for education and a like number their requirements for experience. Six respondents have recently lifted restrictions as to the race of the applicant. (Some report that fair employment practices legislation has been a factor.) Taboos on the physically handicapped have been abolished by three companies; two now accept part-time and temporary employees; one plant has raised its quota of married women.

A number of respondents note that they have no hiring restrictions other than ability to perform the job.

Of the companies raising the hiring age for clerical workers, most have moved from a former limit (such as 40) to a new one (such as 50), but a few say they have no age limit. One life insurance firm that has raised its hiring age requires a waiver of certain fringe benefits from older applicants.

Requirements for education and experience are being eased rather reluctantly, respondents' comments indicate. One manufacturer has "found it necessary to accept less experience than we would desire." The controller of a large firm reports, "We have tried to hold the line on education and experience requirements; when we must, we shade the experience requirements."

Recruits who are insufficiently educated or experienced must be

trained, and two out of five respondents now provide formal training in office skills, when needed. As might be expected, the proportion grows with the size of the company; 69 per cent of large companies, 43 per cent of medium-sized companies, and 25 per cent of small companies provide formal training for inexperienced new employees.

Another useful expedient in a tight situation is to use temporary help agencies to meet peak manpower requirements. Three out of five respondents do use such agencies once in a while at least, and 10 per cent make a regular practice of it. Large companies are much more likely than small ones to use temporary help.

COMPANY SIZE AND TURNOVER

A company's first line of defense against the manpower shortage is, obviously, to hold the workers it already has. Over-all, respondents to this survey appear to be doing better than average; median annual turnover of office workers among the 98 firms answering this question is 10 per cent, as compared with a median of 15 per cent found in another recent AMA survey (which, however, included a higher proportion of non-manufacturing firms).* Small firms hold on to their workers more effectively than large ones; the median turnover for firms with an office staff of over 1000 is 18 to 20 per cent. The companies reporting the lowest turnover, under 5 per cent, are almost all manufacturers; non-manufacturers form the majority of those with high turnover, 30 per cent or above.

The proportion of quits to discharges is quite high: 95 per cent is the median for the group as a whole, with little difference between small and large companies. Family reasons, primarily pregnancy and marriage, are the principal causes for office workers' quitting, according to a majority of respondents (129). Other important reasons are dissatisfaction with various aspects of the job (31); moving to another city (23); and more pay offered elsewhere (22). In all, personal reasons outnumber job-connected reasons, 158 to 62. This is true in companies of all sizes, though in the larger companies the proportion of job-connected reasons

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* Reported in *Recruiting and Selecting Office Employees*, by Milton M. Mandell. American Management Association, *Research Report* No. 27, 1956.

appears to be higher than in small ones. (It could be, of course, that the larger firms are more likely to conduct exit interviews and thus learn the real reason for quitting.)

Few companies appear to have much idea of what it costs them to recruit, select, and train a rank-and-file clerical employee. Among the 24 respondents who venture an estimate, the answers range all the way from $100 (a hardware manufacturer in Connecticut) to $6,000 (an oil firm located, appropriately, in Texas). The median cost reported by this small group of respondents is $400. If this figure is representative, a company having 500 office workers, with a turnover of 10 per cent, is spending $20,000 a year to recruit, select and train replacements.

METHODS IMPROVEMENT MACHINERY

Since survey respondents consider methods improvement the key to reduction of clerical costs, it would be logical to expect that their companies have some sort of administrative machinery for this purpose. Of the 138 companies surveyed, 104 do have either a person or a department whose main responsibility is improving office methods, systems, and procedures. Practically all the large companies, 85 per cent of the medium-sized ones, and more than half of even the small firms have some such person or department. In small firms it's likely to be an individual; in larger firms, a department.

(It should be noted that this picture cannot be considered typical; the firms participating constitute a sample having special interest in methods improvement—as is shown by the very fact that they sent representatives to the Office Management Conference.)

Historically, office methods improvement was started by the finance department in most companies, so it's not surprising that the responsibility for its administration has tended to remain there. More than half of the systems, methods, and procedures staffs surveyed report to someone in the finance department—more often than not the controller, though the treasurer, the assistant controller, the finance vice president and others may be involved. This is especially likely to be the case in small companies.

In about a third of the companies, the systems staff reports to someone in general management: president, vice president, ad-

ministrative director, general manager, and the like. In 9 per cent of the companies surveyed, responsibility is lodged with office management, usually the office manager.

When the question is reexamined from the point of view of status within the organization, about two-thirds of the systems staffs are found reporting to someone in top management, such as the controller, the president, the general manager or treasurer, rather than to someone in middle management, such as the assistant controller or the office manager.

WHO PARTICIPATES?

How thorough is the average methods improvement program? How far down the line does it go?

Participants were asked whether office supervisors receive any training in methods, systems, and procedures improvement.

Though 104 companies have persons or departments responsible for methods improvement, only 59 carry this training down to the supervisory level—which means that 45 attempt methods improvement without getting the informed cooperation of the supervisors. Of the 59 companies who give training, 27 use courses inside or outside the company; 13 hold supervisory meetings (ranging from weekly round-tables to semi-annual conferences); 7 have the supervisors participate actively in methods improvement planning affecting their departments; 7 rely on on-the-job training of various kinds and qualities, and 3 limit the supervisor's education on this subject to the reading of bulletins or magazines.

The picture of rank-and-file involvement is even skimpier. Of 93 companies conducting clerical work simplification studies, only 32 say they give rank-and-file employees any training for taking an active part in this work. Of these, ten companies appear to depend primarily on a suggestion system, and four others on encouragement of the workers by their supervisors. Courses or other formal training are used by seven companies, meetings and conferences by four, other forms of direct participation in work simplification study by two. Evidently, company atmosphere is not very favorable; one respondent, representing a machine tool company, comments: "At one time we conducted formal work simplification groups. They did not prove their value in the office and were discontinued."

TABLE 3

Methods Improvement Activities

Group and No. Replying	No Activity	Forms Control	Records Control	Clerical Work Simplification Study	Work Measurement	Quality Control
Small (38) ...	2	32	31	25	17	16
Medium (60) .	2	52	51	38	23	16
Large (28) ...	—	27	26	26	23	18
Other (6)	—	6	5	4	2	2
Over-all (132)	4	117	113	93	65	52

Another survey participant says that his firm trains rank-and-file employees, "but with little success."

Forms control and methods control are the most widespread systems improvement activities; they are carried on by practically all the large companies and by four out of five of the small ones (Table 3). Clerical work simplification studies are made by 93 of the 138 companies; office work measurement is carried on by 65 companies, quality control by 52.

Responsibility for these activities is widely scattered throughout the organization (Table 4). By and large, systems, methods, and procedures staffs carry the largest share of the load—yet in many companies the office manager or the office management department is responsible. Where the jobs are divided, the systems staff is more likely to carry on forms control, work simplification, work measurement and quality control, and office management is more likely to be responsible for records control.

Forms control also puts some check on the many demands made on office management for new, more detailed, or more frequent reports of all kinds—demands which, if not regulated, can cancel out all the budget savings which might otherwise be made from the installation of automatic office systems and machinery.

As to records control, it has been estimated that it costs a company $1,556 to create the contents of a single file drawer, plus about $55 annual handling costs—and records consultants have

TABLE 4

INDIVIDUALS OR DEPARTMENTS RESPONSIBLE FOR METHODS IMPROVEMENT ACTIVITIES
(Principal Mentions Only)

Individual or Department	Forms Control	Records Control	Clerical Work Simplification Study	Work Measurement	Quality Control
Organization, systems, methods, procedures, controls, departments or manager.	39	29	37	21	9
Office manager—or office management or service department	26	37	20	9	5
Office of Administrative Management .	12	3	3	1	1
Controller or Assistant Controller . . .	9	12	3	2	1

found 7 to 15 file drawers per employee in many representative companies. When these records are sifted, only a fraction are found to have been worth keeping.

WORK MEASUREMENT AND INCENTIVES

The majority of the 65 respondents measuring clerical work report the use of more than one method. It is surprising that work sampling, a technique fairly recently introduced into office work measurement, is the one most often mentioned (39 respondents). Other work measurement methods, in order of preference, are historical (34); time-motion study (21); and use of predetermined time values (19).

Only 12 of the companies surveyed provide incentive or premium pay for clerical jobs; of these, six use work measurement and two use the Scanlon plan, based on over-all increases in productivity. The other four companies do not state the basis on which they calculate premium pay.

Six companies pay premiums for "all clerical" or "all routine

repetitive jobs"; four for routine typing, and two for specialized jobs in single departments of the office.

AUTOMATIC EQUIPMENT

Of the 138 companies surveyed, 111 have some sort of automatic equipment to handle at least a portion of their clerical jobs. By far the most widely used is tabulating or punch-card equipment. All the large companies, five out of six of the medium-sized ones, and three out of five of the small ones use punch-cards for a wide variety of office jobs. Forty separate applications are mentioned; the most frequent are payroll, sales and sales analysis, general accounting, billing, inventory, production control, statistics and research, cost accounting, and order processing.

Thirty-seven companies have punched paper tape equipment, used primarily for communication of messages, for order writing and processing, and for accounting. Thirty firms have computers, which they use for payroll, research and statistical work, inventory control, accounting, billing, sales, and sales analysis.

WHAT'S HAPPENING TO OFFICE COSTS

With all the study, all the systems improvement, all the mechanical equipment flowing into American offices, what are the prospects for holding down the cost of office work? Not too bright, respondents say.

In 57 per cent of the companies surveyed, the ratio of office employees to other employees is rising; in 35 per cent it is constant; only 8 companies out of 100—and this in a cost-conscious sample—have managed to reduce the proportion of office workers.

Yet the situation may not be quite so alarming as it sounds. Much more is demanded of the office than ever before. With each new refinement in equipment and methods, management discovers that prompter, more frequent, and more thorough reports are possible. Since these reports form the factual framework both for forecasting and for decision, the office becomes increasingly not only the communications center, but the strategy center for the company. To the extent that it makes for more efficient management, it is probably worth its cost.

Prophet with Portfolio

Consider the long-range planner,
The viewer of things up ahead,
Who peers in a far-seeing manner
The moment he rises from bed.

Yes, morning to evening with eyes on
What others can't see when they stare,
He's gazing beyond the horizon
While cracking his shin on a chair.

Though year after year he grows thinner
And grayer, his eyes on a star,
Forgetting to come home for dinner,
Misplacing the keys to the car,

It's he who forever is scheming
Of things that tomorrow will hold.
His brain is incessantly teeming
With plans that are brilliant and bold.

Oh, we're glad there's a long-range viewer,
We're happy to pay him his pay,
As long as a plain short-term doer
Is around to take care of today.

—Richard Armour

What's Wrong with "Executive Development"?

■ *Thomas G. Spates*

THAT SUCCESSFUL MANAGEMENT is basically a matter of human relations skills is a truism few executives today would be inclined to dispute. Objective evidence, derived from scientific investigations, clearly indicates that at least 80 per cent of everything that goes wrong in an organization is due to people, including members of management, who either don't know, can't do, or don't care—people whose knowledge, skills, or attitudes are deficient.

It is relatively easy to acquire and impart knowledge. With the sole, but vitally important, exception of the field of human relations, it is also relatively easy to acquire and impart skills.

For example, one company trained more than 50,000 people who had little or no previous factory experience for machine operation during World War II. In the vast control room of one of the complex operations of the Atomic Energy Commission, the Ph.D.'s originally thought to be essential for the work were later replaced by "hillbillys." In the short span of 40 years, the leaders of Russia have transformed a nation composed predominantly of illiterate peasants into the world's second ranking industrial power.

Dr. Spates, Professor Emeritus of Personnel Administration, Yale University, was formerly Vice President of General Foods Corporation and a member of the Board of Directors and the Executive Committee of the American Management Association.

The evidence, then, is overwhelming that filling the gaps in knowledge and skills—fixing the "don't know, can't do," part of individual make-up—presents no serious problem. Executives today are most in need of effective training in human relations—and the need is made more pressing by current world conditions.

THE RUSSIAN CHALLENGE

The United States today is faced with an unprecedented challenge to its industrial and scientific leadership. The magnitude of the challenge may be judged from this partial record of Russian progress, taken from publications during the past half year:

¶ Russia is the world's second industrial power; the world's second naval power; the world's second biggest producer and holder of gold.

¶ The number of trained engineers in the Soviet Union increased from 41,000 in 1920 to 541,000 in 1954, while our increase in the same period was from 215,000 to 500,000. The number of engineering graduates from Soviet higher institutes rose from 28,000 in 1950 to 63,000 in 1955. In the same period, the number of United States engineering graduates dropped from 52,000 to 23,000.

¶ One of the initial Soviet experiments with automation, a ball-bearing production line, was rated a little better than any similar development in the United States by the Ford Motor Company member of the American Automation Mission to the Soviet Union.

¶ Fourteen U.S. physicists who returned from a 10-day visit to Russia unanimously agreed that the Russians are in a position to get a 10-year jump on the rest of the world in high-energy physics research.

¶ General Nathan F. Twining, Chief of Staff, U.S. Air Force, says we must, "in prudence, reckon on the possibility of their achieving a scientific breakthrough and consequent technological surprise in new weapons."

¶ It is reported that Russia's new synchrocyclotron is the largest and most powerful in the world.

In population, size, natural resources, passion for industrialization, and scientific and technical progress, the U.S.A. is meeting its match in the U.S.S.R. Faced with this challenge, it is clear that we must utilize every resource—including every executive resource—to its fullest extent. Because our ultimate advantage in this competition for survival lies in our moral and spiritual leadership—in our belief in human values and the sacredness of the individual personality—we cannot afford to deny human relations skills the central role in the development of tomorrow's executives.

Countless individuals suffer every day at the places where they

work because of attitudes toward human values and the lack of skills in human relations. Changing and improving attitudes and behavior present problems of the first magnitude. They are the primary areas of leadership development requiring special consideration—yet they are the areas in which many current programs of management and executive development are failing.

The causes of this failure are not hard to determine: First, most of the programs that have specialized in broadening and developing members of management are based upon the old and seriously questioned authoritarian tradition of education; second, they have failed to take advantage of recent achievements in the allied fields of sociology, psychiatry, and clinical psychology that have been revolutionizing our understanding of personality and its development and our concepts of education.

Most of these programs are dominated by the authoritarian principle of education. Although individual participation is often on a "voluntary" basis, the participants are usually there because someone in authority in their respective companies has decided it would be a "good experience," without regard for any specifically identified needs for broadening and development that are acknowledged by the individual.

On the basis of that authoritarian nudge, on the assumption that current methods of teaching undergraduate and graduate students are efficient, and as a consequence of desire for prestige, effective promotion, and the influence of imitation, 50 men may find themselves at one of the oldest and best of the academically inspired "executive programs." The average age of these men is forty-five. Their average annual compensation is approximately $21,000. Each has already had several years of successful performance in management. But their individual needs for the development of competence in administration, which involves people first of all, cannot be averaged. Individual needs are the product of infinite and complex variables.

HOW ARE NEEDS DETERMINED?

Nevertheless, the directing authority of the program has decided in advance, for all of these vastly different personalities, what they need and how the needs are to be satisfied. For example, it was

decided in one program that a lengthy exercise in cost accounting for all conferees was a needful part of a broadening and developing executive experience. Although the participants enjoyed discussing the exercise, the experience seems rather remote from the individual needs of present and future executives of American business and industry, particularly at a time when the increasing emphasis is upon competence in human relations.

With few exceptions, the participants in this program love it—and why not? They are well fed and comfortably housed. They receive a desirable form of recognition from their boss. They enjoy the academic environment and an association with the "professors" on terms that are different from those they experienced as undergraduates. The contacts are pleasant and "broadening." But what about the price that is being paid for those relatively superficial values?

How much better it would be if they were enthusiastic about the experience for other reasons! How much better if their complacency had been shaken and their courage challenged by the experience!

This illustration has its counterparts in the management and executive development programs of schools and universities across the country. No matter how you dress them up or what you call them, such authoritarian programs have little regard for the individual needs of future administrators.

AUTOCRACY AND MANAGEMENT DEVELOPMENT

The authoritarian principle can take an even more extreme form. In the administration of the management program of one large company, for example, the personal prejudices of the director, rather than intellectual objectivity and interest in effective educational methods, have been the determining factors in the selection of faculty and curriculum. Although not uncommon in the normal operations of business, autocratic decisions made solely on the basis of personal prejudice should have no place at all in providing for the staff and the curriculum of a program for the development of future business leaders in a society that aspires to be free.

However, the directors of executive programs may themselves be under autocratic pressure from above. Some chief executives are

disposed to let it be known what kind of program they want. It is difficult to alter the traditional educational climate of any organization, even when it is obviously out of date. There are always potential risks in trying to go contrary to the wishes of the top executive group.

THE NEED FOR INCENTIVE

A recent issue of a company publication contains an article on management development that describes an experiment in liberal arts education. The title implies a combination of authoritarianism, paternalism, and perhaps even some welfare state philosophy: "How Can We Broaden the Supervisor's Horizon?" More in keeping with the current understanding of personality development would be an article entitled, "How Can We Influence the Supervisor to Broaden His Horizon Himself?" The first step would be to provide an incentive that becomes an integral part of organization culture. For example, this incentive might take the form of a statement of company personnel policy to the effect that selection for and promotion within the management function would be dependent upon self-development in the humanities.

A personnel policy statement published in 1954 by the Board of Directors of Esso Standard Oil Company indicates an awareness of the importance of executive self-development.

> Considerations such as moral standards are receiving added emphasis in evaluating potential managers. Likewise important is the ability of a manager to apply and benefit from honest self-analysis as applied to his own and to management's actions. The theme that management can do no wrong is without support.

That statement expresses the letter and spirit of the new frontier in personality development. It is a stimulating contrast to the approach and the methodology that characterize many current programs for management and executive development.

Where is a full account of the new frontier in personality development to be found? What is the justification and support for the critical observations directed toward the mass-production, bandwagon, cold storage, spoon-feeding forms of executive development that have become so widespread and popular in recent years? Why are they a tragic waste of time, talent, and profit?

The answers to those questions have been coming with increasing

volume, confidence, and assurance from the work of a growing number of social scientists and psychologists and from the lifetime experience of physicians who have specialized in mental and emotional health.*

These men are all speaking the same language. They seem to be in substantial agreement. Here is one way of summarizing those of their findings and conclusions that appear to be relevant to executive development:

1. A human being does not *have* a personality; he *is* a personality, the parts of which are in balance and cannot be independently changed.

2. Almost all the problems with which human beings contend in achieving and maintaining a healthy personality are due to relationships with other personalities.

3. Improving interpersonal relations should be a major goal of all education and development. This is a truly formidable task that involves attitudes, behavior, and the skills in human relations that are probably the most difficult to teach and to learn.

4. The most essential step in achieving this formidable task is to know and understand ourselves as a requirement for knowing and understanding others. This involves self-analysis, self-awareness, and self-development as primary conditions for effective leadership.

5. All genuine learning is essentially personal. It depends upon self-motivation and is derived from the felt needs of the student; it is in the last analysis self-learning; it is largely an emotional experience.

6. Constructive learning involves change and adjustment of attitudes and behavior. This kind of learning is stifled by authority; it requires participation in creating the learning environment and a

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*This group of eminent scholars and practitioners who have been contributing greatly to our understanding of human relations, motivation, behavior, and personality development includes Argyris of Yale, Bavelas of M.I.T. (now with the Bell Telephone Laboratories), Cantor of the University of Buffalo, Kahn and Katz of the University of Michigan, the late Kurt Lewin (formerly of M.I.T.) and his associates, Likert of the University of Michigan and his associates, Maier of the University of Michigan, Roethlisberger of Harvard, Rogers of the University of Chicago, Whyte of Cornell, and Drs. Smiley Blanton and the late Harry Stack Sullivan.

permissive atmosphere in which participants are free to discuss real problems in which they have a sense of personal involvement. Lectures are useless for this kind of learning.

7. The process of evaluating and feeding back the results and consequences of the learning experience is an essential aspect of methods of improving skills in human relations.

8. Listening with understanding is the gateway to real communication, and it can be an effective means of altering personality structure. Until one tries it, he will never know how very difficult it is and the courage it requires.

9. One of the most important factors in the morale and productivity of the individual is his mental attitude toward his boss. The best results are achieved by supervisors who place primary emphasis on human problems and contribute to the sense of importance and personal worth of those whose work they direct.

SPECIFICATIONS FOR EFFECTIVE DEVELOPMENT

When these relevant conclusions, reached by scientific methods of research, experimentation, duplication, and validation, are used as the standard of measurement for the constructively effective development of managers and executives, the wastefulness of many currently popular programs is clearly revealed.

These conclusions could be translated into a practical and efficient program for the development of business leaders. Such a program would include five essential specifications:

1. The chief executive officer, in consultation with appropriate associates, would prepare a statement of the purposes and objectives of the business and its organization, with particular reference to principles of human relations, requirements and standards of behavior for those who direct the work of others, and basic qualifications for selection and promotion in the management function.

2. A thorough analysis and appraisal of the strengths and weaknesses of candidates for development would be made. The best-known methods provide for participation, by the candidate, in this analysis and appraisal.

3. To qualify for help in development and participation in a program, each candidate would prepare a statement of his specific

needs, the areas in which he wants help, and the contribution that his development would make toward the attainment of company objectives and to his personal satisfaction and growth.

4. Successful candidates would receive help from available resources, through special arrangement, or through participation in small groups devoted to the free discussion, under skillful and permissive leadership, of real problems of mutual interest chosen by mutual agreement.

5. Provision would be made for evaluation of performance and feedback directly to the individual in terms of free expressions of reactions to his behavior in the course of the development experience. If this form of evaluation and feedback is not an integral part of the development experience, interviews and attitude surveys could be used to meet the requirements of this specification.

These specifications cannot entirely eliminate authoritarianism from executive development programs, since some element of authoritarianism is inherent in the very structure and environment of organization. They can, however, provide that authority shall be used creatively, to insure that men will be permitted to grow and develop in an atmosphere of freedom in accordance with their needs and aspirations as individuals.

THE NEW FRONTIER

The findings in the new frontier of personality development are consistent with our religious heritage and the ideas upon which the United States of America was founded, and essential for their preservation. An increasing use of these principles in executive development can be expected as a growing number of the leaders of business and education realize that we cannot afford the tragic waste of the high-level boondoggling that often passes for "executive development" today.

NEUROTIC WORKERS? A Yale University researcher suggests that workers can get nervous and jittery from the strain of watching and controlling automatic machinery. Unions are already trying to get special benefits for employees in plants where automation is highly developed, and demands for more frequent rest periods and other methods of reducing nerve-strain will be high on their bargaining agendas, reports *Mill & Factory*.

Long-Range Planning for Company Growth

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ORGANIZED LONG-RANGE PLANNING is so new that there is no generally accepted definition of what it includes. Some companies limit their long-range planning pretty much to capital requirements problems. Other companies, notably in research-and-development-based industries such as aircraft, think of long-range planning primarily in terms of product planning. Still others think of it in terms of "share of market," others in terms of product diversification, and so on.

Long-range planning in its present most highly developed form is organized planning to achieve optimum results in the development of total company operations for the practical future—usually 5, 10, or 20 years. Inherent in this concept is the implementation and control of programs to carry out the plan. It includes planning in all the usual functional areas—marketing, operations, finance, etc.—as well as a master total company plan going beyond the sum of the parts. In other words, a total company plan may logically point out the unmistakable advantages of carrying the company to new

techniques, products, markets, or philosophies of operation beyond anything that could be derived simply from a projection of the existing parts of the business today.

The companies that have led the way in long-range planning and have probably benefited most from it in one sense are the companies with relatively large financial commitments to make. Planning is used to minimize the risks and optimize the gains. But small companies also stand to benefit from long-range planning. A large multi-unit or multi-product company can concentrate investment in its relatively most profitable areas; in a one-product company, with no choice as to re-investment, long-range plans for present as well as new products, expansion in foreign markets, etc., may be necessary to provide the choice of a more profitable investment.

HOW LONG IS "LONG RANGE?"

A company should plan ahead as far as it is useful, but only as far as it is possible to do so with reasonable accuracy. The minimum long-range planning time for a particular company can be determined by applying a combination of these five factors:

1. *Product Development Time.* A manufacturing company may take two years to redesign a part of their line; another company may take over three years to redesign a bread wrapper.

2. *Resources Development Time.* The extractive industries, such as the integrated steel, lumber, paper, and oil companies, are faced with planning the requirements for their products decades ahead. In the wood-products industries, for example, long-range planning extends well beyond the life expectancy of the present management.

3. *Market Development Time.* This can vary tremendously: One company may plan to spend several years developing the market for an improved original equipment automobile component part; a manufacturer of ladies' fashionwear may have to develop his market in a matter of weeks.

4. *Physical Facilities Development Time.* Two years is a typical minimum time to develop major physical facilities from the "green light" stage to the going operation.

5. *Payoff Time for Capital Investment.* Payoff time for major investments, such as a new plant, is frequently three or four years

of full operation. It may vary from one year in a speculative field like pharmaceuticals to more than a decade in utilities.

Combining the above factors usually shows that what you are doing—or not doing—today will have ramifications five, ten, or more years from now. This determines the minimum planning period. Seldom, if ever, is this less than five years. A National Industrial Conference Board survey several years ago indicated that, at that time, three to five years ahead was the most common term for long-range planning, and the trend is definitely toward a lengthening of this period.

TIMELINESS OF LONG-RANGE PLANNING

There are five factors behind the new increase of interest in this subject. Hardly a company today is not confronted by at least one, and frequently several, of these influences. The first factor is the need to prepare for increasing competition with a return to more average levels of business activity. In some industries, highly competitive conditions are already at hand; in others, plans are being made now in relatively good times to operate toward specific long-range objectives; that is, in spite of short-term fluctuations which may lie immediately ahead. In a sense, the longer the present boom lasts, the more long-range planning will be done.

A second reason for the timeliness of long-range planning is related to increasing research commitments by many companies in "frontier products" fields. This is particularly true of companies in the aircraft, chemicals, electronics, and other research-based industries. The financial commitments involved for the research and development programs in some of these companies are becoming so huge that careful planning must be made for the expenditures involved in relation to the probabilities of payoff—when payoff will come, and how much can be expected.

Sheer increase in size and complexity of management problems is the third factor that is causing other companies to turn to long-range planning. No longer can these companies be effectively controlled by one man alone. Additional plants, additional diversification of products, additional markets, new labor conditions, new manufacturing techniques tending toward automation are too com-

plex for rule-of-thumb handling. Decentralized operations and diverse functions must be coordinated. As even the most elementary step, forecasts must be worked out for cash requirements. This leads to long-term planning for all phases of the business.

Increasing management responsibility is the fourth factor in the current sharp rise of interest in long-range planning. This includes management responsibility to the employees in terms of "supplementary unemployment benefits," responsibility to the smaller stockholder who wants regular dividends of uniform amount (versus the old-time large holder with diversified interests), and responsibility for the stability and welfare of the community in which the company operates.

The fifth factor is composed of industry changes which require major replanning jobs in the conduct of a business. The most successful business enterprises of today are those which capitalize on these long-term technological, sociological, competitive, and distributional changes and plan for them, rather than belatedly discovering that the changes have passed by their outmoded organizations, products, or methods.

All these conditions are now making long-range planning a very active center of management attention. Intuitive judgments and plans are no longer enough.

HOW THE PROGRAM CAN PAY OFF

The principal advantage of long-range planning is in providing a guide for management action. Complacent drifting or slow, unobserved slipping behind cannot happen. When management sees bad *past* performance, it develops alibis. When management sees bad performance in the *future*, it scrambles to take action.

The specific benefits and advantages of long-range planning, in addition to the apparent benefit of helping plan maximum results from the present business, fall in five principal categories:

1. *Greater Share of Industry Growth.* A long-range program may enable a company to move into a part of its field where it can share in industry growth.

2. *Offset Stagnant Low-Profit Fields.* Certain otherwise well-managed companies have been hobbled by being in a stagnant or no-growth field. Long-range planning may point the way for such

a company to translate its skills into some growth segments of similar or allied fields.

3. *Share in New Industries.* As an example of this, we see companies like Thompson Products going into not only "regular" electronics products but into frontier developmental fields such as those required in missile guidance systems. Many of the companies that have taken a position in the atomic energy field have done so on a long-range planning basis with little expectation of an early payoff.

4. *Fulfill Capital and Physical Requirements.* Planning for capital requirements has historically been the starting point of long-range planning in most companies. Building a new plant almost always involves a long-range forecast and plan. Sometimes this is done on a loose rule-of-thumb basis, but a detailed, long-range plan, worked out with careful projections of potentials, share of market, product design requirements, etc., can enable management to take maximum advantage of the expansion of facilities.

5. *Fulfill Organizational and Operational Requirements.* Building management takes time. Many rising companies plan their organization structure to meet anticipated conditions for years in advance, so that the additional future operations will be integrated into the corporate structure.

The organized approach to long-range planning enlists the total support of the organization. Everyone involved (top management, directors, department and division heads, and so on) has a uniform understanding of what long-range planning can and cannot achieve, and their part in it. The many variables and functions of product planning, manufacturing, marketing, research, finance, and so on for each division and product line can be coordinated into a master plan.

Stated long-range goals and programs can also be a very attractive influence in getting or holding high-caliber personnel. By the same token, banks, insurance companies, and other sources of capital are favorably impressed by organized and formal long-range planning that is operated in a practical way.

It has recently been pointed out that long-range planning can be used effectively to help prevent "raids" on a company by outside groups. The raiding group usually capitalizes on the lack of a

management program and promises—however unrealistically—a program of its own. Able management can overcome this threat by continually presenting its own long-range program to the stockholder.

RESISTANCE TO LONG-RANGE PLANNING

There are usually three principal arguments given against the use of long-range planning for a program of company development in any particular situation:

1. *Our business is too cyclical.* The management of this company will argue that it is almost impossible to forecast 12 months ahead, much less as far ahead as five years or longer. This may be very true, but the important thing to realize is that long-range planning is concerned with long-term trends, not with outguessing the business cycle. In planning and forecasting sales volume, for example, *share of market* can be used to offset the short-term business cycle.

2. *Our customers don't know their plans; how can we know ours?* This problem can be licked in two ways. One is in trade analysis, employed by a company to keep tabs on what its customers' customers are doing. In this sense, a company may know more about its customers' business than the customer itself. The second attack is by use of empirical forecasts of the industry and the relative standing of the company, based on long-range forecasts for gross national product or other benchmark forecasts.

3. *Long-range planning is too vague.* True, companies successfully using long-range planning today do not pinpoint their forecasts. Some are attempting to improve this by determining the probability of error. But the real benefits of long-range planning come from the broad outline of your position five, ten, or more years hence. The important thing is not to know if your growth will be 51 per cent or 53 per cent in five years, but to know that it will be a lot more than, say, 10 or even 20 per cent. Long-range planning is more a compass than a timetable.

There can, of course, be legitimate objections to long-range planning procedures. They must be realistic, flexible, and not "overplanned." Plans without a high degree of flexibility run a great risk of subsequent abandonment.

Achieving long-range planning with maximum effectiveness is not easy, at best. But an organized program for this activity can capitalize on the pitfalls found by others and avoid the frustrations that can come in a casual or haphazard method of setting up this truly vital management aid.

PLANNING AND ORGANIZING THE PROGRAM

There are three fundamental parts to planning and organizing a long-range program for company development. These are: (1) setting up the original program, with goals and a measure of the extent to which present and projected products and services will meet these goals; (2) setting up programs and controls to meet these goals; and (3) a periodic review and revision of the plan and programs. Long-range planning in this sense becomes the total "blueprint" for future company development.

The first phase—establishing the original program—is usually the most complex and often takes more than one year. Any company going into this phase of the program for the first time can usually save itself false starts and frustrations by checking with the experience of others who have already been through the process. The seven points listed below are a composite of the elements usually found in this first phase, when the original establishment of the program has been most successful.

1. *Establishment of the Part Played by Key Individuals.*

The chief executive officer must be the prime mover behind the long-range planning for a program of company development. Time would only be wasted without his enthusiastic participation. The operating heads of the various divisions or departments should also be actively involved in the actual planning. For example, Robert C. Tait of Stromberg-Carlson points out that his company decentralizes much of the planning to individual departments and divisions to insure that no aspect of the business will be overlooked and to get much of the important work done at the level where the greatest degree of specific knowledge exists.

Staff responsibilities are playing an important part. A number of companies have small but competent staff groups, headed by a person of real stature who usually reports to the chief executive,

working on long-range planning for company development. As long-range planning techniques become more refined and useful, they also become more specialized in nature, and a qualified and specially trained assistant to the president or chairman is being used by an increasing number of companies.

Outside consultants are frequently used for guidance, especially in installing long-range planning techniques and in evaluating their effectiveness. Fifty per cent of the companies in a National Industrial Conference Board study used consultants in some phase of their long-range planning operations. However, management must make the final decisions.

2. *Formal Assignment of Responsibility to Operating and Staff People.*

The trend in long-range planning organization seems to be toward using a specialized staff in coordination with a committee of divisional line executives. The staff head is frequently at the vice president level and independent of line operations. The size of the staff depends on the complexity of the planning operation and the number of allied duties (such as central marketing research) assigned to it.

The "bedrock" staff functions in long-range planning are (1) coordinating divisional and departmental plans into total company plans, and (2) economic forecasting. For each product line, these over-all plans include, to the extent possible, such factors as sales projection, share of industry projection, pretax earnings, net assets, and breakeven points.

But additional functions are invariably assigned, depending on the needs of the particular situation. These functions might include business forecasting, market research, organization and executive development planning, establishing sales objectives independent of the divisions as a comparison to the divisional objectives, new plant surveys, raw materials surveys, diversification, and so forth. The "commercial development" functions of planning, searching for, and appraising prospective company acquisitions are almost always connected with the planning groups.

3. *Definition of Real Nature of Present Business.*

The familiar and oversimplified illustration that Cadillac sells prestige more than transportation is an example that the real nature

of a business is not always evident at first glance. The real nature of the business in the consumer's mind will affect product planning, engineering, promotion, marketing, manufacturing, and so on. It must be understood and agreed upon before charting a future course.

4. *Statement of Business Purpose and Philosophy.*

This step is frequently overlooked in long-range planning. But, as attested by many of the companies which have formulated such a statement, it is the real bedrock foundation for all planning. Without it, more specific plans and objectives become somewhat arbitrary.

The statement of business purpose and philosophy should spell out in some detail the types of service which the organization renders, to what types of customers, and with what attitudes toward the employees, management, the trade, community, and stockholders.

5. *Analysis of Past Record.*

As a basis for forecasts and setting objectives, the past record is analyzed for such factors as volume, rate of growth, share of market, etc.

6. *Establishment of Quantitative Goals for Sales Growth Profits and for Investment.*

This is done by carefully weighing and balancing six factors, one against the other.

Projection for present products and services. This begins with the record of the past history of present products, an inventory of the factors that affect them, and pertinent general economic forecasts; it ends with an actual long-range projection. Sales projections include share of market for each present product line. Profit opportunity should be isolated for each product line. This can be done on a trend basis to avoid complications of short-term business fluctuations. These projections are compiled by the division and department heads having jurisdiction over the products being forecast. Staff people can give guidance on procedure, but the projection itself is usually a line responsibility.

Industry growth. The past growth of the industry is also projected. If there are subclassifications within the industry, these, too, should be plotted. Practical industry projections can be made

under even the most difficult circumstances, such as in the defense products fields.

Individual competitor growth. Frequently, certain leading companies in an industry have decidedly better growth than average. Such instances may influence management in setting its own goals.

Share of the market. Projection should be made of the share of the market the company expects in each present and projected product line.

G. N. P. growth. Certain basic projections for the economy can be used as a measure of the probable rising of the tide as it will affect your company and industry. Forecasts for the company and the industry should of course take these over-all trends, such as gross national product or all manufacturing sales, into account.

The extent of desire to grow. The over-all statement of primary objectives and philosophy will give some guides for setting goals. For example, a company that is dedicated to an increasing position in a fast-moving industry may naturally set more ambitious goals of growth than a company that has developed a conservative policy in, for example, the foundry business. This, of course, does not mean that a company in a slow-moving business cannot have goals of major growth if it is willing to invest time, effort, and money in a major new company development program.

A similar process is used to set other quantitative goals, such as profit on sales, profit on investment, equity growth, capital turnover, stability, and product mix. Unrealistically ambitious goals will only serve to nullify the effectiveness of the whole program; improvement must be realistic in terms of what other companies are doing and your own company's capabilities.

7. *Qualitative Objectives and Limitations to Overcome.*

Usually, in addition to the regular growth and profitability objectives, each company has some special non-quantitative objectives, which should be agreed upon. Frequently, they are in the form of limitations to be overcome. The desires for proprietary products and for research-based products are also qualitative objectives.

PROJECTS AND CONTROLS

The second phase of long-range planning may be called "projects and controls." It is entered once the original program has been

set up. The original installation established goals and showed the extent to which present products and methods were projected to move the company toward these goals. In this second phase, many projects and programs are developed throughout the different functions of the business to work toward reaching the goals that have been set up. Naturally, controls are placed on the effectiveness of these programs.

Specific programs may develop all through the organization as a result of the long-term planning process. For the most part these will not be totally new programs, but old programs with new objectives, new purposefulness, new enthusiasm, and new coordination. Examples of areas where this may happen are:

> *Product Planning:* Redesign of existing products; additional products for present lines; shortening of present lines; expansion into allied lines; product pretesting programs.
>
> *Product Diversification:* Planned product diversification into completely new fields to provide greater profit and growth opportunities, and to balance or offset limitations of present product fields.
>
> *Marketing:* Market development programs; distribution realignment; territory analysis; sales forecasting; sales cost analysis; sales organization; trade analysis; marketing research; pricing programs; consumer research; motivational studies; advertising and promotional policies.
>
> *Financial:* Long-term capital projections and requirements; dividend policies; financial public relations; improved budgeting; improved cost controls; relocation of profit centers; capital budgeting on return on investment basis.
>
> *Research:* Entry into frontier research-based fields; undertaking major government work programs.
>
> *Operations-Manufacturing:* Facilities location studies; productivity increase programs through use of automation; re-equipment programs.
>
> *Relations:* Industrial, community, stockholder, financial, customer, supplier, trade; corporate citizenship.
>
> *Administrative and Other Programs:* Organization planning; centralized versus decentralized organization structure; personnel recruitment programs; executive development.

PERIODIC REVIEW AND REVISION

The third and final phase of conducting a long-range program for company development is in the periodic formal review and revision of the objectives, goals, and programs. For long-range purposes, many companies find that a yearly review of their long-range planning is most appropriate. At that time, projections are

brought up to date for the current year and forecasts and goals are added for the year at the future end of the scale. This review and "rolling forecast" can be made in conjunction with annual budgetary and capital expenditure review sessions.

PLANNING FOR TOMORROW'S NEEDS

The leaders in long-range planning are usually the first to admit that they have a lot to learn in this new and fast-developing field. But the process of setting up long-term objectives and specific goals of future development and working out a program with adequate controls to achieve these objectives presents so many opportunities for more effective use of corporate resources that management has come to feel a virtual obligation to plan ahead in terms of five, ten, or more years. As Ralph J. Cordiner, president of General Electric, has pointed out, the maximum contribution to our economic future will be made by the management with sufficient vision "to see with at least some clarity and confidence the needs of tomorrow and beyond tomorrow."

Health Worries and the Executive

IF YOU'RE LIKE the average executive, you're healthier than you think you are. This conclusion is borne out in a recent study by the Research Institute of America of some 3,500 executive health examinations. About 40 to 45 per cent of the executives studied complained of ailments. But the examinations revealed only 12 to 30 per cent of the top-level men were actually ailing, *Nation's Business* reports.

Baseless worry, of course, is nothing to laugh off. Anxieties and tensions often cause symptoms like insomnia, dizzy spells, heart palpitation and stomach trouble that may lead to serious disability. Physical and emotional stress, for example, can be an aggravating factor in heart trouble.

In contrast to the gap between complaints and ailments discovered, the study showed that, among the 55 to 60 per cent of the executives who had no complaints, actual disabilities existed in 15 to 30 per cent of the cases. Taken together, the findings emphasize the executive's need for a clearer picture of his health to ease worry as well as point up any ailments.

Business, it is clear, has seriously begun to protect its top manpower investment. Since 1946, executive health plans, centering on periodic diagnostic checkups, have expanded throughout American industry by an estimated 1,000 per cent. One of the most realistic benefits is removal of the executive's fear of serious illness.

Organizing for Profitable Overseas Marketing

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NOT LONG AGO, a textile firm that had established a successful manufacturing and marketing operation in one important foreign market planned to repeat this success in another overseas area, which appeared quite similar and which had, if anything, a much more prosperous economy. Without bothering to make a special study of the new country, the company set up a similar manufacturing and marketing organization. The result was a fiasco, and only the expenditure of much time, money, and effort enabled the firm to correct its mistakes and make its foreign operations profitable.

Another company built a foreign manufacturing installation without investigating the availability of local raw materials and the feasibility of importing them from abroad. As a result, the completed plant was an industrial mausoleum for a considerable period of time, at substantial cost to the company.

Still another company failed to take the lower economic standard of a certain country into consideration in its marketing plans. Slow sales of the product when packaged in the size used in the home market finally made it clear that the size of the package would have to be reduced to one more compatible with the local economy. This change immediately increased over-all sales and the profitability of the entire operation.

These cases emphasize the importance of thorough preliminary

investigation and analysis of a prospective overseas market. As with any other major business decision, a sound rule is: "Look before you leap." Only on the basis of careful study and planning can a company hope to take full advantage of the immensely profitable opportunities that now exist for American goods and services abroad.

The growing opportunity for American goods in overseas markets is well illustrated by the increasing number of companies whose overseas sales represent a substantial part of their total sales—and whose foreign profits also represent an increasingly important portion of their total profits.

The export volume of the United States today is running in excess of $16 billion annually, and American goods produced and sold abroad by the manufacturing subsidiaries of American corporations or by the foreign affiliates or licensees of such corporations have been estimated at $30 billion annually. And, with few exceptions, the net return on foreign sales is proportionately higher than it is for similar operations at home.

PRELIMINARY INVESTIGATION

Once the decision has been made to market overseas, a preliminary investigation is necessary to determine in broad outlines which markets should be entered and to what extent. This survey will be a guide for more detailed research of the major markets selected, which will determine the channels that will be utilized for developing these markets.

There are three general methods of entering a foreign market: (1) straight export; (2) foreign manufacture (own operations or through others); or (3) both export and foreign manufacture. The selection of the proper method will be influenced by a number of factors.

The first consideration is the volume of goods that will be available for export. Surplus production alone is inadequate to create stable and continuing markets.

The personnel and financial resources available for the international operation will be a factor in determining whether the company can set up its own export operation—and, if so, how extensive it will be—or whether it must arrange for foreign production of its own or through others.

Other factors that will influence the choice of a method of operation include the size of the market; shipping costs from U.S.; tariff and exchange regulations, which may make it more advantageous to manufacture or assemble locally; local laws and regulations; taxes; raw materials, supplies, and power available; labor conditions; treatment of foreign capital; local competitive situation; and public attitudes towards imported versus local brands.

After these areas have been investigated, it will be possible to (1) select a distributor or agent, (2) set up the local manufacturing, assembling, or packaging installations, or (3) obtain local production through others by contract manufacture or by licensing. Appropriate local distribution networks and suitable methods for their operation can then be established in each country. The preliminary investigation will also set the stage for conducting necessary market research and establishing an advertising program.

ORGANIZING FOR OVERSEAS OPERATIONS

When the company has selected the markets it intends to enter and determined the channels it will utilize, it becomes necessary to establish the character and size of international division that will best accomplish the company's aims. Before a sound decision can be reached, many of the same considerations that would apply to a company that wished to enter the domestic market must be analyzed and related to the environmental conditions and circumstances existing abroad.

1. *Corporate objectives and policies* are the first factors that must be weighed in determining the character and size of the international division. What is the nature of the business? If it is a simple, small-volume export activity, no very elaborate overseas organization will be required. The international headquarters will consist of an export manager and his assistants, who will be capable of filling orders, arranging for shipments, maintaining contact with agents and distributors abroad, etc.

On the other hand, if the chief activity is to be licensing, a very different organization will be required. After selecting the proper licensee and making the necessary arrangements for this kind of collaboration, constant and continuous administrative and technical supervision will be required. It may also be necessary to provide

marketing know-how. This calls for a different type of personnel, as well as a greater degree of involvement, than are required in the pure export activity.

When foreign manufacture is necessary, perhaps because of tariffs and currency restrictions, a much more elaborate overseas organization is needed. The international headquarters for this type of operation will be quite different from the export office, since general management problems of every type will be involved: financing, marketing, manufacturing, legal, engineering, etc.

In many cases, a mixed type of operation is required; i.e., some finished products are exported, other semi-processed products are exported for final processing, and still others are manufactured abroad entirely. This requires an overseas organization geared to handle both export and the administration of foreign installations.

There are, of course, many other factors influencing the character and size of the overseas organization. One determining factor is whether or not the overseas business will parallel the domestic activity. In some cases the domestic pattern may be followed entirely, but in others a different approach will be required—as, for example, when a company decides to market only a fraction of its product line abroad. Financial considerations will also play an important part, depending on the extent that investments and/or credit may be necessary.

The extent of manufacturing control that will be necessary for foreign manufacture is another influence. There is a great deal of difference between the degree and extent of control needed to supervise and administer a local cosmetic operation and a complex antibiotic manufacturing installation. A related consideration is the extent of functional supervision that must be provided for marketing your products. For instance, textiles would not require the same degree of technical education to promote their sale that fertilizers need.

Still another important consideration is the matter of ownership policy. Will the company insist on whole ownership? Will it consider shared ownership? Will a policy of no foreign investments prevail? Obviously, each of these alternatives requires a different kind of headquarters operation.

2. *Product line.* The type of product line also has an important

bearing on the character and size of the international division. Is the line such that the several products blend into a similar pattern, and hence can be promoted and distributed on a similar basis? Insecticides, herbicides, and fertilizers would fall into this category. On the other hand, ethical drugs and perfumes would not be compatible, and they would require quite different treatment.

Is it a one-product company, or does it produce a long line of products? An automobile company's activities can be organized on a single-purpose basis. A chemical company like du Pont, on the other hand, will have to establish its headquarters on a multiple-purpose basis to tailor the treatment of its varied products to their respective needs. The scale or size of the organization needed to develop the sale of a product will also influence the character and size of the international headquarters.

3. *Stage of development.* Is the operation in a purely introductory export stage of development? Television or electronic equipment, for example, may be marketed abroad exclusively through distributors. When the export operation has reached a more mature stage of development and the exporters support their distributors with an overseas promotional staff, this change will be reflected in a larger and different kind of international headquarters. Later on, the same manufacturers may decide to license their products' manufacture in certain countries like Germany and England. This will introduce an entirely new personnel group and activities into the international headquarters.

If it is decided subsequently to proceed with partial assembly in some countries and complete manufacture in others, this will create a further realignment and expansion of the home office supervisory headquarters to cope with these new responsibilities.

4. *Degree of integration with domestic operations.* International headquarters vary from one extreme, the company whose overseas operations are controlled by an independent international division or by an international corporation with a greater or lesser degree of independence and autonomy, and the other extreme, in which the international headquarters is completely integrated with the domestic set-up and there is no separate foreign division as such. Between these two poles there are as many variations as there are companies. Obviously, in the former case the home

office headquarters would be much larger and endowed with many more responsibilities than in the latter.

5. *Degree of overseas control and supervision.* As a company's objectives change, the degree of control may require alteration. If a company that has been exporting only decides to engage in technical collaboration or licensing agreements, it will require a higher degree and different kind of headquarters supervision. More complex export and overseas manufacturing and marketing organizations require considerably more control and supervision.

The amount of information required and the degree of operating freedom granted to overseas branches and subsidiaries will also bear on the functions that the international headquarters must perform and how large it must be to discharge them.

6. *Personnel available at home and overseas.* Until sufficient staff becomes available, it will be necessary for the international headquarters to adjust its character and limit its size accordingly. At first it may find it necessary to rely for the most part on foreign distributors, then to develop promotional activities of its own in support of these distributors, then to set up its own overseas marketing and manufacturing installations where desirable, and so on, as additional personnel are trained and become available. Obviously, the headquarters organization in each of these stages will differ accordingly.

7. *Legal and financial considerations.* After all the above factors have been considered, legal and financial considerations may modify the entire concept of the structure. As a result, a less streamlined and more complex corporate setup may prove to be either more economical or more useful for corporate development purposes. This, in turn, will alter the character and size of international headquarters.

The possible use of tax haven or profit sanctuary corporations for capital accumulation, trading profit, and holding corporation purposes may also enter the picture.

Other considerations would include such questions as whether to establish a separate corporation outside of the parent corporation or administer and supervise overseas activities through a division of the parent company; to what extent Western Hemisphere Trade Corporations with their respective branches could

be utilized; and to what degree separate foreign corporations with their respective branches could be set up.

GROWTH OF OVERSEAS OPERATIONS

The order in which the overseas operations grow and develop will influence the organization of the home office headquarters. Starting with a small export operation, a typical company might advance through three steps to a complete overseas operation:

1. *Export operation.* At first, a small export operation is located within the framework of the domestic sales or marketing division. The export manager, who reports to the Domestic Sales or Marketing Vice President, has only a small staff, obtaining any required services from the domestic sales organization. Activities abroad are conducted through agents, and communication with them and supervision of their efforts are handled for the most part by correspondence. Little or no promotional support is provided for the distributors.

As the export operation grows, it becomes an independent unit. Although it still relies to a great extent on domestic services to conduct its operations, it develops a number of services of its own, particularly in the areas of promotion, shipping, etc., and a larger staff is required. At this stage, much greater support is provided for the distributors. There is greater contact with them through personal visits, and representatives are stationed in the field to back up their efforts by promotional assistance.

2. *Overseas marketing organization.* The next step occurs when the export activities have grown to the point where the company establishes its own marketing organization abroad. Commencing with area sales offices, designed to provide on-the-spot marketing management, it moves on to the establishment of its own sales units, through marketing branches and subsidiaries. These developments influence the number and character of the functions that must be performed by the international headquarters in order to supervise and administer the overseas organization effectively. To the supervision of what was primarily a trading operation, there must now be added general managerial responsibilities concerned with distribution, marketing, supply, finance, etc.

After the distribution and marketing organization has been es-

tablished overseas, the problem of supply requires solution in certain markets. Currency or import restrictions may prevent the company from shipping products to its local marketing branch in a given country; tariff advantages may favor competitors that have local production facilities. If it is not economically or financially feasible to set up the company's own manufacturing unit, it may be desirable to obtain local production on a contract manufacturing basis through some outside firm. In such a case, international headquarters must include manufacturing control functions.

Another solution to this same supply problem may be licensing a local producer to manufacture the product under a technical collaboration agreement, and then have the producer supply the product to the company's local branch or subsidiary at an agreed-on price, or by sharing costs and profits. Generally, the licensing arrangement is preferred over contract manufacturing alone where the process or product is complex, or protected by a patent, etc.

The company may decide to turn over both the local manufacture and distribution of the product to the licensee. Licensing presents many variations, but the important consideration in all these licensing agreements is that new responsibilities are created for the international headquarters, which must be organized and staffed accordingly.

3. *Complete overseas operations*. Finally, the company embraces all phases of foreign operations: export; its own overseas marketing; and manufacturing, including contract manufacturing and licensing. These complete overseas operations require a home office headquarters capable of providing both line direction and satisfactory functional supervision.

Bearing in mind the many factors that must be considered, the headquarters organization should be tailored to the particular company's circumstances. In any case, constantly changing operational, financial, and tax considerations will necessitate corresponding changes in the home office.

Of course, the test of the organization established to administer the company's international operations will be its effectiveness, its workability, and—in the last analysis—the profitability of the operation as a whole.